

Commonwealth Bank
Commonwealth Bank of Australia
ACN 123 123 124

**Profit Announcement
For the year ended
30 June 2002**

Results have been subject to an independent audit
by the external auditors.
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Financial Highlights

(Except where otherwise stated, all figures relate to the year ended 30 June 2002 and comparatives are to the full year ended 30 June 2001.)

For the year ended 30 June 2002, the Commonwealth Bank Group recorded a net profit after income tax of \$2,655 million, up 11% on the prior year.

The net profit from ordinary activities ('cash basis')⁽¹⁾ for the year ended 30 June 2002 after tax, and before goodwill amortisation and appraisal value uplift is \$2,501 million. This is an increase of \$239 million or 11% over the year ended 30 June 2001.

A fully franked dividend of 82 cents per ordinary share will be paid on 8 October 2002 to owners of ordinary shares at the close of business on 26 August 2002.

On a cash basis, the dividend payout ratio for the year is 76.2% up from 75.5% for the prior year.

The Group cash earnings result comprised:

	\$M	% on 30/06/01
Segment profit after tax		
- Banking	2,067	up 15%
- Funds Management	216	up 45%
- Life Insurance		
Operating margins	185	down 5%
Investment returns	33	down 74%
Net profit after tax (cash basis)	2,501	up 11%

Banking

The Group's banking businesses achieved a strong result with net profit after tax increasing to \$2,067 million, 15% over the prior year, reflecting:

- Net interest income growth of \$236 million or 5%, which was achieved through a 6% growth in average interest earning assets compared with the prior year, primarily due to housing loans growth, partly offset by a slight decline of 2 basis points in net interest margin to 2.76%.
- Other banking operating income growth of \$171 million or 7% driven by growth in lending fees (despite the impact of discounting home loan establishment fee offers) and commission income together with, strong trading income, and gains on sale of investments.
- Expenses were lower than the prior year levels with the banking cost to income ratio reducing by 3.6 percentage points to 54.1%.
- Bad debt expense increased by \$64 million to \$449 million mainly due to specific provisions required against two large corporate exposures in the first half of the year. Total bad debt expense represented 0.32% of risk weighted assets compared to 0.28% for the prior year. Bad debt experience for the second half was 0.11% of risk weighted assets (0.22% annualised) reflecting the improved credit quality of the Group's lending portfolio.

Funds Management

The contribution to profit after tax from the Group's funds management businesses increased to \$216 million, 45% over the prior year.

On a pre tax basis the growth in profit was a strong 21% from \$243 million last year to \$294 million this year. The after tax result was positively impacted by a 17% fall in the income tax expense to \$78 million due to the reduction in the corporate tax rate and the non recognition of overseas tax losses last year.

The result was characterised by growth in income of 14% to \$842 million, partly offset by a 10% increase in expenses to \$548 million due to costs associated with increased volumes, development costs associated with funds launched during the year and costs associated with the continuing development of the UK funds management operation.

Funds under management increased by 1 percent to \$103 billion over the year to 30 June 2002. This reflected a 5% increase to 31 December 2001 and a 3% decline in the second half of the year. Average FUM for the year increased by 10% to \$104 billion. Funds under management were impacted by poor investment returns, the loss of a few large institutional mandates in Australia and the run off of an asset management contract in the UK.

Life Insurance

Operating margins from life insurance businesses decreased by 5% from \$194 million last year to \$185 million at 30 June 2002.

Operating margins in Australia were \$20 million or 11% higher than the prior year at \$210 million. This result was mainly due to improved experience on mortality and disability claims, an increase in inforce premiums of 14% together with the benefit of higher average FUM balances within the unit linked investment business. These were partly offset by the run off in traditional and investment account business.

New Zealand operating margins were slightly higher than the prior year at \$25 million however Asian operating margins were lower, falling by \$30 million to a loss of \$50 million for the year. The fall in operating margins within the Asian life businesses reflects the impact of global equity markets, start up expenses in relation to pension and retirement business within Hong Kong and other one off costs.

Investment returns for the year were \$33 million after tax compared to \$126 million in the prior year.

Investment returns in the prior year included a \$47 million gain on the transfer of certain strategic investments into the life insurance business. Investment returns this year included a \$15 million write down of Asian businesses. Excluding these items investment returns on shareholder funds were \$31 million lower than in the prior year due to the poor performance of world equity markets.

Group Expenses

Total operating expenses for the Group were less than 1% higher than in the prior year increasing by \$31 million to \$5,201 million. Additional cost synergies of \$205 million associated with the Colonial and Commonwealth Group integration were recognised in the current year, offset by volume related increases in expenses and the effect of EBA related staff cost increases.

The Group cost to income ratio declined from 58.6% to 57.4%. The Banking cost to income ratio declined from 57.7% to 54.1% or 3.6 percentage points.

The normalised cost to income ratio ⁽²⁾ for the Group decreased from 59.2% last year to 56.1% for the current year, an improvement of 3.1 percentage points.

Income Tax

Income tax expense includes amounts incurred on behalf of life insurance policy holders and corporate tax. During the year total income tax expense decreased by \$77 million to \$916 million however policyholder tax contributed \$130 million to this reduction due to lower investment returns attributable to policyholders during the year.

The corporate income tax expense increased by \$53 million or 6% to \$952 million this year. This resulted in an effective corporate tax rate of 27.6% in the current year which was slightly lower than the prior year rate of 28.3%. The reduction reflects the drop in the corporate tax rate from 34% to 30% this year, partially offset by higher recognition of tax losses last year.

Financial Highlights (continued)

Banking ⁽³⁾	\$M	% on 30/06/01
Total operating income	7,262	up 6%
Net interest income	4,710	up 5%
Other operating income	2,552	up 7%
Operating expenses	3,929	down 1%
Bad debt charge	449	up 17%
Income tax expense	816	up 16%
Profit after tax	2,067	up 15%
Net interest margin	2.76%	down 2 bps
Lending assets (net of securitisation) ⁽⁴⁾	\$B 161	up 8%
Average interest earning assets	\$B 171	up 6%
Funds Management	\$M	
Operating income ⁽⁵⁾	842	up 14%
Operating expenses	548	up 10%
Income tax expense	78	down 17%
Profit after tax	216	up 45%
Funds under management ⁽⁶⁾	\$B 103	up 1%
- Retail	\$B 34	unchanged
- Wholesale	\$B 44	up 1%
- Life insurance	\$B 25	up 3%
Life Insurance	\$M	
Operating margin		
- Australia	210	up 11%
- Asia and New Zealand	(25)	down \$29 million
Investment earnings on assets in excess of policyholder liabilities	33	down 74%
Profit after tax	218	down 32%
Life insurance assets	\$B 36	down 4%

Appraisal Value Uplift⁽⁷⁾

For the year ended 30 June 2002, appraisal values of the life insurance and funds management businesses increased by \$577 million. The increase comprised:

- A \$57 million change to net tangible assets being, profits of \$434 million offset by other capital movements of \$377 million;
- Other valuation changes of \$43 million and
- An appraisal value uplift of \$477 million being \$147 million relating to the transfer into a market value environment of CFS property and underlying uplift of \$330 million.

The underlying uplift of \$330 million is broadly in line with expectations and slightly in excess of goodwill amortisation. (Refer summary of Life and Funds Management Valuations on Page 27)

Goodwill Amortisation

The goodwill amortisation charged in determining the result for the year was \$323 million, slightly lower than last year due to the write off of goodwill related to synergies realised during 2001.

- (1) 'Cash basis' for the purpose of this performance summary is defined as net profit after tax and outside equity interest, before goodwill amortisation and life insurance and funds management appraisal value uplift.
- (2) The normalised cost to income ratio is determined by substituting an assumed 8% pre tax investment return for actual investment returns and removes policy holder tax from the income line. This ratio removes the distortion caused by volatility in investment income and movements in policyholder tax.
- (3) Includes General Insurance.
- (4) Net of loans securitised of \$7,047 million (\$6,773 million at 30 June 2001).
- (5) Includes internal income.
- (6) Includes internal and external FUM.
- (7) AASB 1038 requires that all investments owned by a life company be recorded at market value. The 'appraisal value uplift' is the periodic movement in the Balance Sheet asset 'excess of market value over net assets'

Key Performance Measures

		On 30/06/01
Return on equity (statutory)	14.67%	Up 1.17 percentage points
Return on equity (cash basis)	13.93%	Up 1.10 percentage points
Earnings per share (cents) (statutory) - basic	209.6	Up 11%
Earnings per share (cents) (cash basis) - basic	197.3	Up 10%
Total assets held and funds under management	\$327 B	Up 6%

The purchase of Colonial resulted in an initial dilution of EPS (cash basis). With the major integration milestones now achieved EPS has begun to increase as the impact of synergies are reflected in earnings.

Integration of Colonial

The Colonial integration work is substantially complete with the Group having achieved its forecast synergy benefits of \$380 million in cost savings and \$70 million in revenue synergies by 30 June 2002. This achievement was ahead of forecast with much of the designated year 3 work completed ahead of schedule. Included within the result to 30 June 2002 is an additional \$205 million in cost synergies and \$30 million in revenue synergies compared to those achieved last year.

The majority of cost synergies achieved this year were in the banking segment with future life and funds management synergies to be achieved through the implementation of the organisational restructure announced in December 2001. The future synergies will arise from the merger of the Commonwealth life and funds management business with Colonial First State and the associated product/systems rationalisation in the life businesses. (Refer Funds Management Business Analysis on page 23).

Balance Sheet, Funding and Capital

The Group's balance sheet and capital position has strengthened further over the past year. Interest earning assets grew 8% and the overall credit quality improved due mainly to the strong growth in home loans. This growth was largely funded by a strong increase in retail deposits of 10%, and as a result of this, wholesale funding was lower than expected.

The Group's capital position remains strong with Tier 1 capital at 6.78%, Tier 2 capital at 4.28% and total capital ratios remain higher than June 2001 and December 2001 levels.

The Group continues to focus on optimising the level and mix of capital supporting its operations while maintaining a prudent and high quality capital base. Consistent with this strategy, the Group intends to issue innovative capital securities (Hybrids) to enable it to undertake a share buy-back of approximately \$500m. Subject to the receipt of regulatory approvals, the Group intends to complete these capital management initiatives by the end of this calendar year.

Following the above initiatives the Group's strong capital position will be maintained.

The Bank's credit ratings have been affirmed as set out on page 31.

Group Performance Summary

	Full Year Ended		
	30/06/02 \$M	30/06/01 \$M	30/06/02 vs 30/06/01 %
Profit from ordinary activities after tax (statutory)	2,655	2,398	11
Profit from ordinary activities after tax ('cash basis' ⁽¹⁾)	2,501	2,262	11
Income			
Interest income	10,455	11,900	(12)
Interest expense	5,745	7,426	(23)
Net interest income	4,710	4,474	5
Other banking operating income	2,552	2,381	7
Total banking income	7,262	6,855	6
Life insurance income ⁽²⁾	997	1,268	(21)
Funds management income	809	701	15
Total Income	9,068	8,824	3
Expenses			
Operating expenses	5,201	5,170	1
Charge for bad and doubtful debts	449	385	17
Total Expenses	5,650	5,555	2
Profit from ordinary activities before goodwill amortisation, appraisal value uplift and income tax	3,418	3,269	5
Income tax expense ⁽²⁾	916	993	(8)
Profit from ordinary activities after income tax	2,502	2,276	10
Outside equity interests	(1)	(14)	(93)
Profit from ordinary activities after income tax and before goodwill amortisation and appraisal value uplift	2,501	2,262	11
Appraisal value uplift	477	474	1
Goodwill amortisation	(323)	(338)	(4)
Net profit after income tax attributable to shareholders of the Bank	2,655	2,398	11
Contributions to profit (after tax)			
Banking	2,067	1,793	15
Life insurance	218	320	(32)
Funds management	216	149	45
Profit after tax from ordinary activities ('cash basis' ⁽¹⁾)	2,501	2,262	11
Goodwill amortisation	(323)	(338)	(4)
Appraisal value uplift	477	474	1
Net profit after income tax attributable to shareholders of the Bank	2,655	2,398	11

⁽¹⁾ 'Cash basis' for the purpose of this performance summary is defined as net profit after tax and outside equity interest before goodwill amortisation, life insurance and funds management appraisal value uplift.

⁽²⁾ Included within life insurance income and tax expense is a \$36 million tax credit relating to policyholder losses (30 June 2001: \$94 million expense). This item is also included in the income tax line in the above profit and loss. The net impact on the net profit after tax is therefore nil (Refer page 25).

Group Performance Summary (continued)

As at	30/06/02	30/06/01	30/06/02
	\$M	\$M	vs 30/06/01 %
Balance Sheet - Summary			
Total Assets	249,648	230,411	8
Total Liabilities	228,592	210,563	9
Shareholders' Equity	21,056	19,848	6
Assets held and Funds under management			
On Balance Sheet			
Banking assets	211,130	191,333	10
Life insurance funds under management	25,355	24,527	3
Other life insurance and funds management assets	13,163	14,551	(10)
	249,648	230,411	8
Off Balance Sheet			
Funds under management	77,483	76,954	1
	327,131	307,365	6
Banking Assets			
Life insurance and internal funds management assets	211,130	191,333	10
External funds under management	38,518	39,078	(1)
	77,483	76,954	1
	327,131	307,365	6
Full Year Ended			
	30/06/02	30/06/01	30/06/02 vs 30/06/01 %
Shareholder Summary			
Dividends per share (cents) - fully franked	150	136	10
Dividends provided for, reserved or paid (\$million)	1,913	1,720	11
Dividend cover (times) - statutory	1.4	1.4	-
Dividend cover (times) - cash	1.3	1.3	-
Earnings per share			
Statutory – basic ⁽¹⁾	209.6c	189.6c	
Statutory – fully diluted ⁽¹⁾	209.3c	189.3c	
Cash basis - basic ⁽³⁾	197.3c	178.8c	
Cash basis – fully diluted ⁽³⁾	197.0c	178.6c	
Dividend payout ratio (%) ⁽²⁾			
statutory	71.7	71.2	
cash basis ⁽³⁾	76.2	75.5	
Net tangible assets per share (\$)	10.89	10.19	
Weighted average number of shares (basic)	1,250m	1,260m	
Weighted average number of shares (fully diluted)	1,252m	1,262m	
Shares at end of period	1,253m	1,244m	
Number of shareholders	722,612	709,647	
Share prices for the period (\$)			
Trading high	34.94	34.15	
Trading low	24.75	26.18	
End (closing price)	32.93	34.15	

⁽¹⁾ Calculated in accordance with AASB 1027: Earnings per Share.

⁽²⁾ Dividends paid divided by earnings.

⁽³⁾ 'Cash basis' for the purpose of this performance summary is defined as net profit after tax and before goodwill amortisation, life insurance and funds management appraisal value uplift. Earnings are net of dividends on preference shares of \$34 million (30 June 2001:\$9 million).

Group Performance Summary (continued)

	Full Year Ended	
	30/06/02 %	30/06/01 %
Performance Ratios (%)		
Return on average shareholders' equity ⁽¹⁾		
statutory	14.67	13.50
cash basis	13.93	12.83
Return on average total assets ⁽²⁾		
statutory	1.11	1.07
cash basis	1.04	1.01
Return on average total assets and FUM		
statutory	0.84	0.81
cash basis	0.79	0.74
Capital adequacy - Tier 1	6.78	6.51
Capital adequacy - Tier 2	4.28	4.18
Deductions	(1.26)	(1.53)
Capital adequacy - Total	9.80	9.16
Productivity		
Cost to total average assets ratio	2.17	2.30
Cost to assets held and funds under management	1.64	1.75
Staff expense/Total operating income	26.35	26.74
Total operating income per FTE	\$262,856	\$252,400
Other Information (numbers)		
Full time staff	30,378	31,976
Part time staff	7,714	7,161
Full time staff equivalent	34,498	34,960

⁽¹⁾ Ratio based on profit from ordinary activities after tax and outside equity interest applied to average shareholders equity, excluding outside equity interests.

⁽²⁾ Based on profit from ordinary activities after tax and outside equity interest. Averages are based on beginning and end of period balances.

Cost to Income Ratios

The life insurance and Group cost to income ratios can be distorted by movements in investment markets from period to period. Further, the life insurance result incurs added volatility from the grossing up of tax paid on behalf of policy holders within the life insurance income and income tax expense lines as explained in the Life Insurance – Business Analysis on page 25.

To provide a more relevant presentation of the underlying cost performance of the life insurance business and remove volatility from the Group cost to income ratio, a "normalised" ratio has been determined. The normalised ratio excludes policy holder tax from the life insurance income line and substitutes an assumed long term 8% pre tax return on shareholders' funds for actual investment returns on shareholders' funds. Comparatives for the prior period have also been adjusted.

	30/06/02 %	30/06/01 %
Cost to Income Ratios		
Banking	54.1	57.7
Funds Management	65.1	67.1
Life Insurance	75.9	59.5
Life Insurance (normalised)	63.5	64.0
Group	57.4	58.6
Group (normalised)	56.1	59.2

Overview of Group

Commonwealth Bank of Australia provides a wide range of banking, financial and related services, primarily in Australia and New Zealand. These services include personal, business and corporate banking, life insurance and funds management. On 13 June 2000 the Group acquired 100% of Colonial Limited, significantly increasing its wealth management capabilities.

On 20 December 2001 the Group announced an organisation restructure, effective from end of February 2002. The new structure has created five customer-facing business divisions, designed to align product development and service delivery more fully with the Group's customer segments. The new businesses are –

Retail Banking Services (RBS) - incorporating delivery of service to our mass-market personal segments plus manufacturing of banking products.

Premium Financial Services (PFS) – incorporating delivery of service to personal customers with more complex financial needs.

Institutional and Business Services (IBS) – incorporating delivery of services to all business and corporate clients, ranging from small businesses through to large corporations.

Investment and Insurance Services (IIS) – incorporating management of the Group's managed funds, master funds, superannuation and insurance products, as well as liaising with and supporting third-party financial planners and in-house advisers.

International Financial Services (IFS) – incorporating our existing operations in New Zealand, Fiji, the Philippines, Indonesia, Vietnam, Hong Kong and China.

The functions formerly within the Technology, Operations and Procurement Division (TOP) are being repositioned into other business units. Back-office operational areas will be relocated into RBS and IIS, providing management of those divisions with end-to-end accountability for customer service outcomes. The technology function will report to the CEO, strengthening its role in the Group's long-term strategic positioning.

This structure complements the Group's greater strategic focus on wealth management and provides a better position from which to meet the needs of all customer segments. The grouping together of manufacturing activities and services relevant to particular customer segments ensures greater clarity and focus, removes service and distribution resource overlaps and achieves improved efficiencies.

Strategic Initiatives

There are a number of trends underway which are changing our view of the future, and accordingly we are adapting our strategic response.

Demographic change and government retirement policies are continuing to place greater demands on consumers to ensure their own financial wellbeing. This continues to increase the complexity of their financial needs, leading to greater demand for more sophisticated services and trustworthy advice.

At the same time, the Internet and other communications technologies provide consumers with access to a multitude of information on products, services and providers globally. Many consumers are using these resources to take a more active approach to having their complex and individual financial needs met, and are more willing to experiment with a wide range of providers.

In response to this demand, and as a result of on-going technology change, new players continue to enter selective segments of the market. These new players typically operate with lower cost structures, placing continued pressure on margins of traditional players.

The rising consumer demands are also prompting more active involvement from regulators, sometimes prompting changes that negatively impact on supplier costs without commensurate benefits to the consumer.

These trends are placing increased pressure on traditional broad-based players, at a time when capital

markets are significantly more responsive with many investors focused on short-term performance.

The key implication from these trends is a movement towards an increasingly customer-driven market. This is happening at a time when there is greater scrutiny worldwide on corporate behaviour in general, and on the reputation of financial services institutions in particular.

In this environment, financial services companies that can help people navigate their way through the maze of offerings and instill confidence in their financial wellbeing will be chosen ahead of others. Companies that play a role in restoring and building faith in the systems and institutions that underpin our society will earn society's respect.

We are implementing a range of strategic responses to this environment, centred around providing our customers with quality service and helping them meet their lifetime financial needs. Initially we are focussing on seven key initiatives –

We are building a "premium" banking service to meet the unique needs of those customer segments seeking a personalised advice-based service. This service will differ from traditional financial advisers in that it will support all aspects of financial management, not just investments.

We are redesigning and rebuilding our support for the small to medium-sized business segments. This work will leverage the experience of our staff involved in servicing large corporates, bringing knowledge of sophisticated financing and risk products and relationship management processes into this segment. We aim to provide a significantly better service level to these segments, which should result in increased market share.

We are leveraging the expertise in our Investment and Insurance Division, specifically the knowledge gained by Colonial First State in dealing with independent financial advisers, to build a stronger in-house advisory capability. This will be supported by continued product innovations, such as our recently launched "First Choice" masterfund. These initiatives aim to improve our ability to meet the financial planning advice needs of our customers.

In our retail segments we are significantly improving our service levels, by empowering our front-line staff with better information, tools and decision-making capabilities so that they can better meet customer needs and quickly resolve any problems.

In our international markets we continue to look for opportunities to expand, with a focus on leveraging our wealth management services and expertise.

All of these initiatives require us to enhance our systems and processes supporting our people, so that our people can **make it happen** for our customers. This is underway.

In addition to these growth initiatives, we continue to look for ways of improving productivity by re-engineering processes and exploiting our scale advantage.

The Bank expects that total staff numbers will be reduced by around 1,000 by the end of this financial year as a result of eliminating duplication, inefficiencies and some back office processing. In addition to the 500 positions announced earlier, a further 1,550 positions will no longer be required. At the same time, there is expected to be an increase of some 550 positions, principally providing customer service. While every attempt will be made to redeploy displaced staff, where this is not possible staff will receive a redundancy package.

With over 1,000 branches, the Commonwealth Bank's branch network remains Australia's largest, exceeding its nearest competitor by around 200 branches and the Bank has today announced that it will keep branch numbers at the current level. As a consequence, a small number of branches that the Bank had previously announced as closing, will not close, as of today.

Outlook Statement

Equity market volatility is leading to increasing concern about the global economic outlook, particularly in the US.

Australia recorded a relatively good economic performance over the past year, despite global uncertainty,

based on strong growth in housing and consumer expenditure.

However, the global outlook constitutes a significant risk to the Australian outlook.

Within the Australian domestic economy, housing is expected to slow over the coming year and business investment will need to record an upturn in order to sustain overall activity levels. Fluctuating equity prices could also undermine confidence.

Continuing firm credit growth this year depends upon business lending increasing as housing lending declines. Competitive pressures will remain strong in this environment.

The high level of household indebtedness constitutes a medium term risk to the outlook. In particular, high household debt levels may constrain future credit growth, leading to slower credit growth over coming years than has been the case in the past.

Productivity growth will remain critical in the face of intensifying competition. The Bank's productivity initiatives are founded in flexible application of technology, scale advantages and staff skills to achieve continuous gains.

Customer service is a core strategic focus for the Bank's future direction. Our business goals are all centred on delivering superior customer outcomes. This focus becomes even more important in the uncertain economic environment.

The directors expect satisfactory earnings growth over the coming year after the cost of implementing strategic initiatives (detailed previously) of \$120 million after tax.

These net initiatives will produce ongoing annual benefits exceeding the cost of implementation.

The economic uncertainties outlined above are expected to put pressure on corporate and shareholder returns, within Australia and overseas. The Group continues to target top quartile Total Shareholder Return (TSR) in the long term, albeit market uncertainties may lower the quantum of TSR in comparison to recent historical trends.

The Group is well positioned to capitalise on opportunities as they arise. Our initiatives focus on customer service and productivity which are critical in the uncertain economic environment. To deliver this we will continue to target 3-6% annual productivity improvement (excluding one off impact of strategic initiatives) together with maintenance of strong Balance Sheet and Capital positioning.

Dividends will be based on Cash Earnings Per Share, having regard to the following:

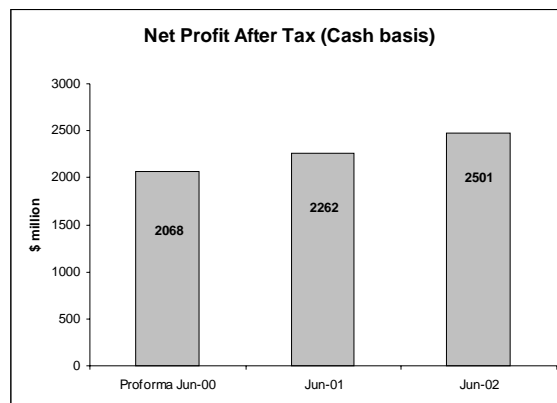
- Rate of business growth;
- Capital adequacy;
- Investment requirements;
- The cyclical nature of life insurance investment returns and expectations of long term investment returns, and
- A range of other factors.

Subject to these factors, the group will continue to maintain a high payout ratio relative to its peers. The dividend payout ratio for the year was 76.2% on a cash basis.

Main Financial Indicators

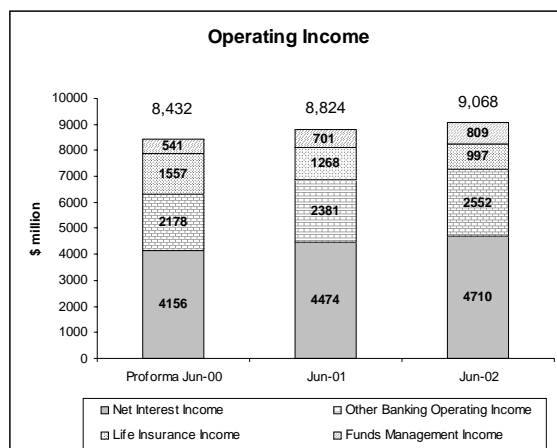
Net Profit After Tax (Cash basis)

- The Group recorded a net profit after tax before goodwill amortisation and appraisal value uplift for the year of \$2,501 million. This result represents an 11% increase over last year.



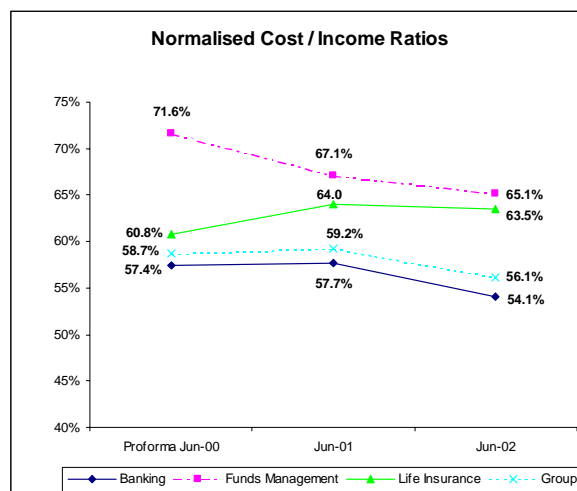
Operating Income

- Total operating income for the year was \$9,068 million (30 June 2001: \$8,824 million).
- Net interest income of \$4,710 million represents an increase of 5% over the last year.
- Other banking operating income of \$2,552 million, represents an increase of 7% over the last year.
- Life insurance income of \$997 million represents a decline of 21% over the last year, primarily due to lower policy holder tax and lower investment returns.
- External funds management income of \$809 million (excluding \$33 million of internal income) represents an increase of 15% over the last year.



Cost Ratios

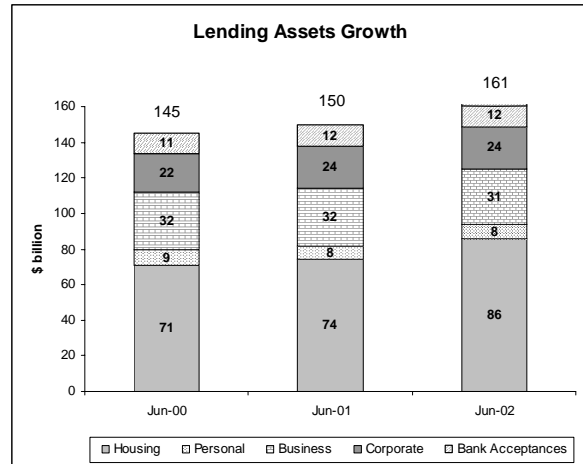
- The Banking cost to income ratio has declined from 57.7% for the year ended 30 June 2001 to 54.1% for the current year.
- The funds management cost to income ratio has decreased from 67.1% for the year ended 30 June 2001 to 65.1% for the current year.
- The life insurance cost to income ratio on a normalised basis has decreased from 64.0% for the year ended 30 June 2001 to 63.5% for the current year.
- The Group cost to income ratio on a normalised basis has decreased by 3.1 percentage points from 59.2% at June 2001 to 56.1% at 30 June 2002.



Main Financial Indicators (continued)

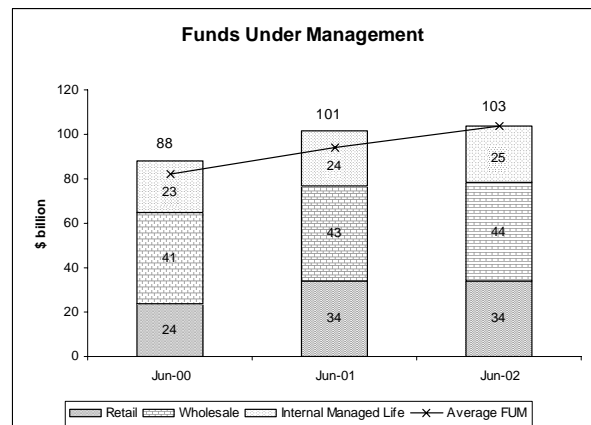
Lending Assets Growth

- Lending assets spot balances (net of securitisation) have increased by \$11 billion or 8% over the prior year. The majority of this growth has been achieved in housing which increased \$12 billion or 17% over the prior year. This reflects improved market conditions and the effect of Group strategic initiatives. Other lending categories fell with a slight increase in personal lending offset by falls in corporate and business lending.



Funds Under Management

- Total funds under management (FUM) at 30 June 2002 increased by \$1.4 billion or 1% over 30 June 2001 to \$103 billion. Total FUM consists of \$78 billion in external FUM and \$25 billion in FUM managed on behalf of the life insurance business (Refer table on page 23). The FUM balances were impacted by volatile market conditions and a general decline in world equity markets later in the year.
- Average FUM has increased by 10% to \$104 billion for the current year.
- Retail FUM (including international funds) has remained flat at \$34 billion.
- Wholesale FUM (including international funds), which includes assets managed within masterfund offerings was also flat at \$44 billion.
- The Group's custody business administers \$79 billion of assets.



Note:

- Internal Managed Life FUM relates to the funds managed for the Life Insurance businesses of the Group.
- Total FUM as reported by ASSIRT has changed to reflect only the Australian Sourced and managed funds. As such FUM per ASSIRT of \$81 billion excludes approximately \$22 billion in international funds.

Main Financial Indicators (continued)

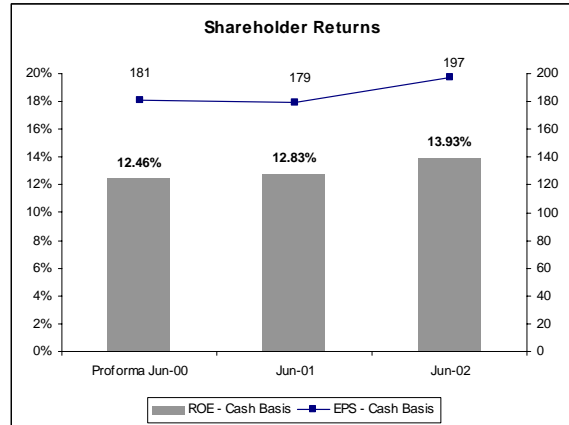
Shareholder Returns

Earnings Per Share – Cash Basis

- Earnings per share is up 10.1% or 18 cents to 197 cents in the year ended 30 June 2002 compared with the prior year. The EPS was initially diluted as expected following the Colonial acquisition and is now increasing with earnings growth and the benefit of synergies from the Colonial acquisition are realised.

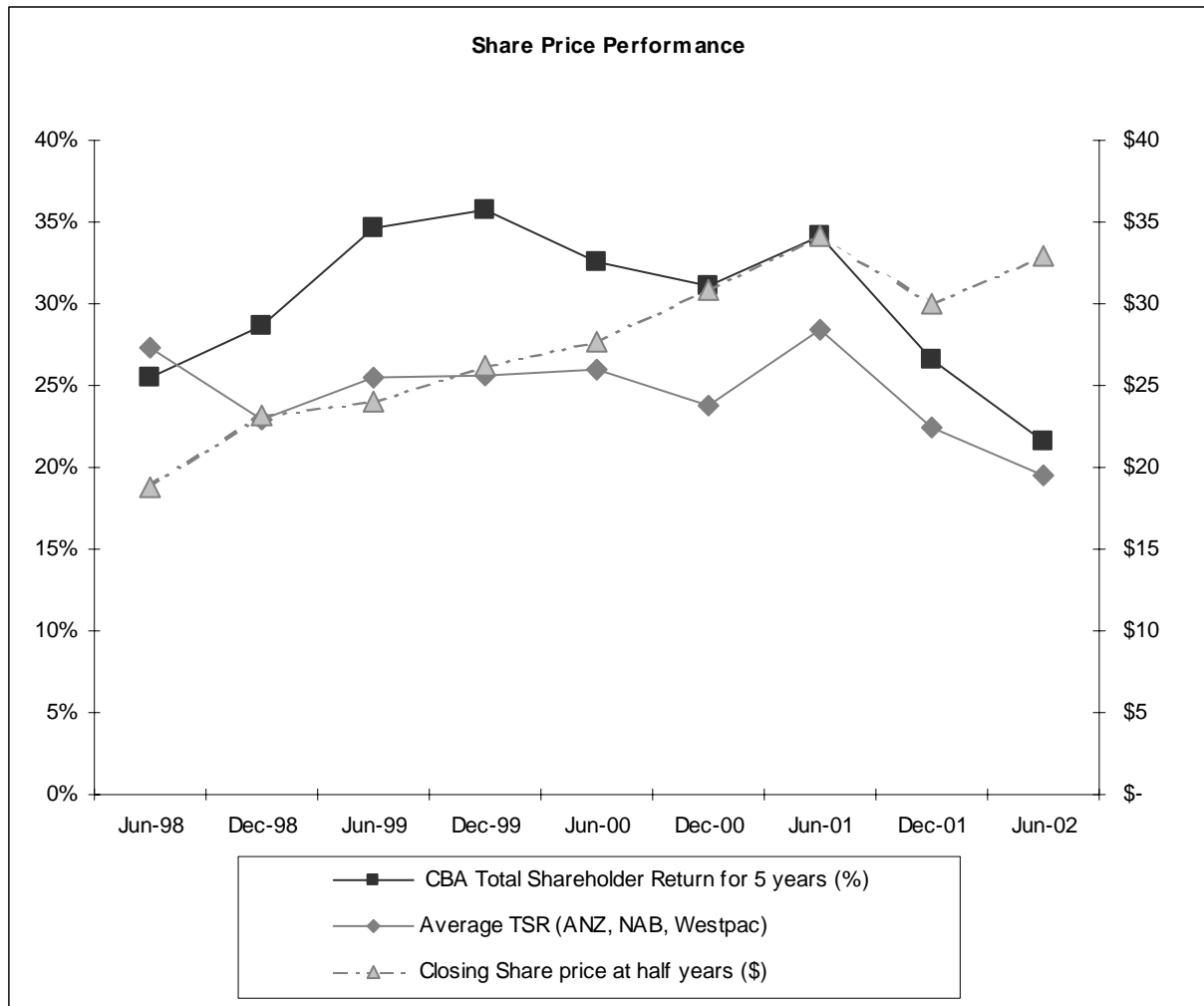
Return on Equity

- Return on equity (cash basis) for the year ended 30 June 2002 has increased by 1.10 percentage points over the year ended 30 June 2001 from 12.83% to 13.93%.
- Return on equity (statutory basis) for the year ended 30 June 2002 has increased by 1.17 percentage points over the prior year from 13.50% to 14.67%.



Share Price Performance

Total Shareholder Return (TSR) is calculated using movements in the share price assuming all dividends are reinvested. The five year return to 30 June 2002 is 21.6%.



Banking Performance Summary

The contribution from the Group's banking business has increased 15% over the prior year to \$2,067 million, driven by strong cost control while maintaining income growth. Net interest earnings increased by 5% to \$4,710 million and other banking income increased by 7% to \$2,552 million. Average interest earning assets have increased by 6% over the prior year to \$171 billion. Expenses were \$29 million below the prior year, resulting in a 15% increase in underlying profit to \$3,333 million. This growth has been partly offset by a \$64 million increase in the provision for bad and doubtful debts.

Profit Summary	Full Year Ended		30/06/02 vs 30/06/01 %
	30/06/02 \$M	30/06/01 \$M	
Underlying Profit (before bad debts and income tax expense)	3,333	2,897	15
Profit from ordinary activities after tax ⁽¹⁾	2,067	1,793	15
Lending Assets ⁽²⁾	161,216	149,776	8
Average interest earning assets	170,634	160,607	6
Average interest bearing liabilities	157,105	145,978	8
Risk weighted assets	141,049	138,383	2
Net impaired assets	614	415	48
Performance Ratios (%)			
Net interest margin	2.76	2.78	(1)
General provision/Risk weighted assets	0.96	1.01	(5)
Total provisions/Gross impaired assets (net of interest reserved)	183.9	251.6	(27)
Non-interest income/Total operating income	35.1	34.7	1
Cost to average assets ratio	1.96	2.10	(7)
Cost to income ratio ⁽³⁾	54.1	57.7	(6)
Other Information (numbers)			
Branches/service centres (Australia)	1,020	1,066	(4)
Agencies (Australia) ⁽⁴⁾	3,936	3,928	-
ATMs ⁽⁵⁾	3,950	3,910	1
EFTPOS terminals	126,613	122,074	4
EzyBanking sites	730	659	11

⁽¹⁾ Represents profit after tax and outside equity interest and before goodwill amortisation.

⁽²⁾ Lending Assets represents loans, advances and receivables and bank acceptances excluding provisions for bad and doubtful debts and securitised balances. Securitised balances are not included in lending assets and amounted to \$7.0 billion as at 30 June 2002 compared to \$6.8 billion as at 30 June 2001.

⁽³⁾ The factors affecting the Group and banking cost to income ratio are discussed on page 29 of this profit announcement.

⁽⁴⁾ Includes Australia Post and private agencies.

⁽⁵⁾ Includes third party ATMs.

Banking Performance Summary (continued)

Major Balance Sheet Items

As at	30/06/02 \$M	30/06/01 \$M	30/06/02 vs 30/06/01 %
Loans, advances and other receivables ⁽¹⁾			
Gross Housing	92,886	80,284	16
Securitisation	(7,047)	(6,773)	4
Housing (net of securitisation)	85,839	73,511	17
Personal	8,230	7,768	6
Business	30,988	32,224	(4)
Corporate	23,642	24,198	(2)
Bank acceptances	12,517	12,075	4
Total lending assets	161,216	149,776	8
Trading securities			
Corporate	8,389	6,909	21
Deposits and other public borrowings			
Personal	64,229	58,620	10
Business	19,486	16,351	19
Corporate	49,085	42,384	16
	132,800	117,355	13
Debt issues			
Corporate	23,575	24,484	(4)

Detailed analysis of the above is provided in Banking - Business Analysis (Refer pages 15 to 17).

⁽¹⁾ Loan balances are before provisions for impairment.

Profit Summary	Full Year Ended		30/06/02
	30/06/02 \$M	30/06/01 \$M	vs 30/06/01 %
Interest income	10,455	11,900	(12)
Interest expense	5,745	7,426	(23)
Net interest income	4,710	4,474	5
Other operating income	2,552	2,381	7
Total operating income	7,262	6,855	6
Operating expenses	3,929	3,958	(1)
Underlying profit	3,333	2,897	15
Charge for bad and doubtful debts	449	385	17
Profit from ordinary activities before income tax	2,884	2,512	15
Income tax expense	816	705	16
Outside equity interests	1	14	(93)
Profit from ordinary activities after income tax	2,067	1,793	15

Detailed analysis of the components of Banking Profit is provided on pages 18 to 21.

Banking Business Analysis

(All figures relate to the year ended 30 June 2002. All comparisons are to 30 June 2001 unless otherwise stated. Market share statistics represent Australian operations.)

As shown in the Banking Performance Summary on page 14, total lending assets have grown by \$11.4 billion to \$161.2 billion during the year to 30 June 2002. As at 30 June 2002, securitised home loan balances amounted to \$7.0 billion, an increase of \$0.2 billion in the year. Including securitisation, lending assets have increased by \$11.7 billion since 30 June 2001. Lending balance growth was driven predominantly by Home Loans, which have grown by \$12.6 billion or 16%. Personal lending balances have increased by \$0.5 billion or 6% over the year while Corporate and Business lending balances have decreased \$1.8 billion since 30 June 2001.

An analysis of the key areas is detailed below.

Personal Products

Housing Loans

The Group's home loan outstandings, including securitisation, totalled \$92.9 billion at 30 June 2002, an increase of \$12.6 billion or 16%. Securitised balances were \$7.0 billion as at 30 June 2002 compared to \$6.8 billion as at 30 June 2001.

Growth in home loans has been strong, with record levels of new business written in the year as a result of specific campaigns undertaken, with a focus on growing share of the mortgage broker channel, and strong demand in the housing market generally. In particular this growth was driven by a low interest rate environment, the continuation of the Government's first home owner's grant and a relatively robust economy, although recent increases in interest rates may result in a slowing of credit growth in the future. The Group has also obtained a larger share of the third party broker market during the year with the CBA's share of approvals growing from 6.9% at 30 June 2001 to 11.9% at 31 March 2002. The Group's market share continued to stabilise, remaining constant at 20.1% in the second half of the year compared with 20.4% at 30 June 2001. (Source: APRA Residentially Secured All Lenders).

Personal Lending

Personal Lending balances at 30 June 2002 amounted to \$8.2 billion, a slight increase of \$0.5 billion compared with the balance at 30 June 2001. The principal balances included within Personal Lending are credit card outstandings and personal loans.

Credit Cards

Credit card outstandings for the Group totalled just over \$4.8 billion at 30 June 2002, an increase of \$0.6 billion on the balance at 30 June 2001. The number of merchants increased to over 151,000 with growth achieved through greater emphasis on developing new bill payment services, particularly via the telephone and emerging channels such as mobile EFTPOS and the Internet. The Group's market share of Credit Card outstandings has increased to 21.6% as at June 2002 from 21.4% at 30 June 2001 (Source: RBA).

Personal Loans

Personal loan outstandings for the Group totalled \$3.5 billion at 30 June 2002 compared with \$3.7 billion as at 30 June 2001. As a result of continued growth in the use of credit cards and home loan redraw facilities, the market for personal loans is in decline. The Group's focus during the year was on customer retention initiatives and it continues to hold the largest share of the personal loan market with 21.3% as at March 2002 compared to 21.9% as at June 2001 (Source: APRA).

Deposit Products

As at 30 June 2002, the Group's retail deposit base in Australia stood at approximately \$64.2 billion, a 10% increase from 30 June 2001. The flow of funds into retail deposits was initially associated with the events of

September 11 and continued in the second half with customer uncertainty associated with volatile equity markets. A corresponding impact was seen in the managed funds business. The Group is the largest acceptor of retail deposits in Australia with a market share of 24.2% at March 2002 compared with 24.0% at June 2001 (Source: APRA All banks).

Share Trading

Commonwealth Securities maintained its position as the leading broker in Australia in terms of the number of transactions. The total number of clients increased from 652,000 at 30 June 2001 to 742,000 at 30 June 2002. Over 85% of CommSec trades are now conducted online with the balance by telephone. Service and efficiency have been further improved in the year through additional features such as the addition of electronic contract notes and customer financial history, audio and audio-visual market commentary and enhanced charting and research facilities.

Business and Corporate Products

Business Lending

At 30 June 2002, total Business Lending (excluding bank acceptances) amounted to \$31.0 billion, representing a reduction of \$1.2 billion over the year and reflecting weak business confidence for much of the period. The Group's market share of business lending as at March 2002 was 14.7%, down slightly from 14.8% as at June 2001. (Source: RBA).

A number of successful campaigns were run during the year, with some focusing on cross selling. This included 'Business Directions', a campaign, designed to promote interest rate risk management solutions, 'Business Select', an integrated financing and transaction offering and the Farm Management Deposit, a tax effective way for farmers to set aside income from more productive years to those affected by adverse factors when it is needed most.

Corporate Lending and Deposits

Corporate Lending balances amounted to \$23.6 billion at 30 June 2002, representing a decrease of 2% or \$0.6 billion in the year. Corporate Deposits have increased by \$6.7 billion to \$49.1 billion at 30 June 2002, an increase of 16% (including certificates of deposit).

The Group's Institutional and Business Services Division, established as part of the new organisational structure announced on 20 December 2001, services the Group's institutional and corporate clients, Government entities, other major financial institutions, and middle market and small business customers. The products offered include financial markets, corporate finance payments and transaction services, and custody. Highlights during the year included the following:

Financial Markets

Financial Markets performed well with trading income up 15% due to clients' increased focus on foreign exchange, derivatives and interest rate risk management, given the prevailing volatile market conditions, and successful positioning of the trading books ahead of global market movements.

New developments during the year included the successful establishment of oil and gas hedging products for clients, completion of a consumer oriented labelling programme with the Australian Greenhouse Office which saw the first Greenhouse Friendly Certification issued in November 2001, and the development of a leading market position in originations, structuring and distribution of corporate mortgage backed securities (CMBS).

The progress of eCommCorporate, the Group's online financial markets dealing platform, has been significant with a doubling of customer numbers to over 2,000 in the year. Transaction volumes and turnover have grown strongly with a corresponding expansion in the products offered during the year to include Investment Bank Bills and Fixed Term Deposits.

Banking Business Analysis (continued)

Corporate Finance

Corporate Finance continues to develop and implement innovative debt and equity structures to meet the capital needs of clients. Substantial transactions undertaken in the 12 months to 30 June 2002 include:

- Sponsor, Senior Debt Joint Lead Arranger and Underwriter, Hedge Bank, Agent and Security Trustee for the Southern Cross Consortium, the successful bidder for the privatisation of Sydney Airport.
- Arranger, Debt and Equity Provider of Operating Lease over new and used trains for Melbourne Transport Enterprises.
- Lead Arranger of a limited recourse project finance facility for QCT Resources, one of the largest resource project finance deals undertaken in Australia.
- Joint Lead Arranger and Underwriter of a dual currency facility for BHP, relating to the de-merger of BHP Steel.
- Joint Lead Arranger of a finance package to fund the buyout of Just Jeans by Catalyst Investment Managers.
- Arranger of Commercial Mortgage Backed Securities transactions for Investa and MCS Capital.

\$15.3 billion of capital was raised for clients in the year to 30 June 2002. Of the total amount raised, 40% was by originations, 41% financing by direct lending and the balance by syndicated loans.

Working Capital Services

Working Capital Services provides a full suite of products to support the financial and operational working capital needs of the Bank's Institutional, Corporate and Business clients, including payable and receivable transactional products and accounts, credit cards, cash pooling, information services and tools to efficiently manage funds, and a complete range of business financing options.

Funds and transaction volumes have both increased as a result of growth in new business, which has been driven by the launch of a new client service model during the year, providing a differentiated client offering. During the period, a more sophisticated Cash Management Pooling Facility was made available to our institutional clients. Direct Entry processing for Government clients, replicating the service they previously received from the Reserve Bank was also introduced.

Commonwealth Custodial Services

Commonwealth Custodial Services continues to consolidate its position in the market with \$79 billion of assets under administration at 30 June 2002.

Distribution and Customer Access

The Group operates the largest financial services distribution network in the country, servicing over 10 million personal and business customers through a wide range of direct customer contact, self-service and third party channels. Strategic emphasis is on better aligning sales and service to the needs of distinct customer segments by recognising that different types of service are required by different customer segments.

Direct contact service channels

Further reconfiguration of the branch and business banking centre networks was undertaken over the 12 months reflecting changing customer needs and banking behaviour.

The branch network was reduced by 46 over the year, from 1,066 at June 2001 to 1,020 at June 2002. This ongoing rationalisation of the branch network is being undertaken in line with customer demand and usage patterns. The Group is now well positioned in terms of overall points of representation and will further intensify its focus on service delivery processes.

In implementing the Group's customised approach to service, a number of initiatives were undertaken during the year including;

To better meet the full financial services needs of all customers, the Group's key objective is to broaden and

deepen relationships with existing customers through a focus on cross-selling of related products and services wherever appropriate.

The introduction of a Premium Banking service for high value personal customers in December 2001, providing relationship management services through 18 Premium Banking Centres nationally.

A new delivery model for home loan customers was introduced with greater specialisation and focus in the key areas of sales, after-sales maintenance and customer retention. This has involved redefining the role of some 500 personal lenders to focus solely on sales, thereby complementing the Group's 202 mobile bankers to create a more effective home loan sales force. Additionally, new positions have been created to focus on after-sales care, service and customer retention.

To better meet the wealth management and wealth creation needs of customers, financial advisory staff have been grouped as either financial planners or investment consultants, with staff filling these roles required to satisfy well-defined accreditation/qualification levels.

A team-based selling initiative has been implemented for Business Banking customers, which is based on restructuring products around six core areas of expertise, and utilising specialists in the areas of lending, transactional banking, personal financing, specialist finance, risk management and wealth management. This initiative aims to enhance the customer experience by providing all finance solutions to our customers' financial and business management needs, through increased responsiveness, service quality, and streamlining of processes.

The Group's direct customer contact network continues to be augmented by the alliance with Australia Post. Personal Banking services are available at 3,729 Australia Post agencies across the country, together with the expansion of transactional banking services for business clients to 207 Australia Post locations.

Electronic and Direct Banking

Customer usage of direct and self-service banking continues to gain pace. The total number of transactions performed in direct/electronic channels increased over the year to June 2002, while branch teller transactions continued to decline. As a result, the proportion of total transactions carried out in-branch was further reduced, from 15.6% to 14.4% in the 12 months to 30 June 2002. Over the year, NetBank was the fastest growing channel, processing more than 158 million transactions in the year.

Growth in the use of telephone banking has been strong, with in excess of 146 million calls received on the 132221 customer service line. Two new call centres were established during the year to ensure the Group is able to meet its expanding requirements going forward and to underpin its commitment to deliver quality customer service.

ATM and EFTPOS usage continue to grow, albeit at a lower rate, with total transactions up 12% and 22% respectively since June 2001. The Group retains the largest proprietary ATM and EFTPOS terminal networks in the country (3,049 and 126,613 terminals respectively).

Woolworths EzyBanking

Woolworths EzyBanking is available through 730 Woolworths, Safeway and Big W stores nationally. Sales of transaction accounts (Ezy Action) and credit cards (Ezy Mastercard) during the year have been above expectations with more than 600,000 account holders signed up as at 30 June 2002. Approximately 38% of these customers are new to the Commonwealth Bank Group.

Third Party

The Group manages a number of third-party distribution networks to sell a range of the Group's products, including managed funds, superannuation and life insurance risk products, and traditional banking products such as home loans and credit cards. Third-party networks include:

Banking Business Analysis (continued)

- Multi-agents and life brokers.
- Authorised financial planners through wholly owned businesses.
- Independent financial planners.
- Insurance franchisees.
- Mortgage brokers.

The growth in the Group's new home loan originations through mortgage brokers was particularly strong in the year to 30 June 2002 increasing from 6.9% to a 11.9% share of the mortgage broker market at 31 March 2002.

United Kingdom

The Group reviewed its businesses in the UK market, and will focus on funds management and wholesale trading operations. As a consequence the Group has sold the Newworld mortgage book and withdrawn from the retail mortgage market.

New Zealand Banking Operations

Performance Overview

ASB Bank had a strong year, with earnings 23% higher than those reported at 30 June 2001. The primary profit drivers were growth in net interest income due to increased lending volumes, an improved cost structure resulting from both lower unit costs and better productivity, and other income growth particularly from financial services. Customer retention and acquisition were key drivers of volume growth and the customer base grew by 63,195 or 7% during the year. As at 30 June 2002, ASB Bank had total assets of NZ\$24.2 billion (June 2001: NZ\$20.1 billion), including total advances of NZ \$24 billion (June 2001 NZ \$19.8 billion).

Lending

Personal and Rural lending volumes achieved record levels for the year. Personal lending growth was 16%, Rural lending growth was 28%, and total assets increased by

21%. This compared to the annual market growth rate of 8.1% for private sector credit (residents only) (Source: Reserve Bank of New Zealand). Record growth in home loans was due to ASB Bank's presence in the key Auckland market, effective marketing campaigns, together with positive market dynamics such as improved economic conditions, lower interest rates, and higher immigration.

ASB Bank's share of the home lending market was 14.3% for the year to March 2002, a 0.7% increase from 13.6% for the same period to March 2001.

Funding

ASB Bank's annual funding (total deposits) growth was 18% compared with the annual market growth rate of 6.1%, (Source: Reserve Bank of New Zealand). The majority of ASB Bank's growth was from term investments as safety and security of capital became important drivers following the events of September 11, 2001 and with the general decline in world equity markets.

Growth in deposit substitute products was primarily attributable to the good performance of the new financial services operations as the customer penetration strategy gathers momentum. ASB Bank's share of retail managed fund inflows was consistently near the top of all fund managers.

Transactions

Customer transaction volumes for the year were 5% higher than in the prior year, as the migration of transaction activity to self-service and direct channels helped to reduce overall costs to serve. Customer uptake of ASB Bank's internet banking service, FASTNET, continued to grow strongly. By 30 June 2002, FASTNET customer numbers had reached 181,000 (114,000 at 30 June 2001). Each month, 2.1m transactions are initiated through the FASTNET Classic and FASTNET Office services.

Banking Analysis of Performance

	Full Year Ended		30/06/02 vs 30/06/01 %
	30/06/02 \$M	30/06/01 \$M	
Net Interest Income			
Interest Income			
Loans	9,231	10,246	(10)
Other financial institutions	165	280	(41)
Liquid assets	142	110	29
Trading securities	359	548	(34)
Investment securities	517	655	(21)
Dividends on redeemable preference shares	41	54	(24)
Other	-	7	large
Total Interest Income	10,455	11,900	(12)
Interest Expense			
Deposits	4,241	5,042	(16)
Other financial institutions	193	328	(41)
Debt issues	1,064	1,661	(36)
Loan capital	232	374	(38)
Other	15	21	(29)
Total Interest Expense	5,745	7,426	(23)
Net Interest Income	4,710	4,474	5

Net Interest Income

Net interest income for the year increased by 5% or \$236 million from \$4,474 million in the prior year to \$4,710 million.

The increase in the net interest income was due to a \$10 billion or 6% increase in average interest earning assets between 30 June 2001 and 30 June 2002. The increase was offset partially by a drop in the net interest margin from 2.78% for the year ended 30 June 2001 to 2.76% for the year ended 30 June 2002.

The table below highlights the effect of movements in net interest earning assets and interest margin on net interest income. Further details can be found in Appendices 6 & 7 of this report.

Increase/Decrease	Financial Year 2002	Financial Year 2001
	vs Financial Year 2001 \$M	vs Financial Year Proforma 2000 \$M
Due to changes in average volume of interest earning assets and interest bearing liabilities	278	334
Due to changes in interest margin	(42)	(5)
Due to days variance in periods	-	(11)
Change in net interest income	236	318

The change in net interest income attributable to volumes is based on applying the change in interest earning balances to the average interest rates for the period. As shown in appendix 6 the growth in average interest earning assets of \$10 billion during the year was driven primarily by strong growth in home lending as discussed on page 15. While this growth was in line with the prior year, the lower average rates for this year

resulted in a lower volume impact on net interest income of \$278 million compared to \$334 million last year.

The change in net interest income due to changes in the net interest margin was negative \$42 million this year reflecting the decrease in net interest margin of 2 basis points applied to the average balances for the period as discussed on page 19.

Banking Analysis of Performance (continued)

Group Interest Margins and Spreads

The following table shows margins and spreads for the Group. Interest spread represents the difference between the average interest rate earned and the average interest rate paid on funds.

Interest margin represents net interest income as a percentage of average interest earning assets.

The calculations of margins and spreads for Australia and Overseas include an allowance for transfer of offshore funding used to finance onshore lending. The lower overseas margins and spreads reflect the effect of the wholesale funding nature of that business.

	Full Year Ended	
	30/06/02	30/06/01
	%	%
Australia		
Interest spread ⁽¹⁾	2.75	2.56
Benefit of interest free liabilities, provisions and equity ⁽²⁾	0.25	0.43
Net interest margin ⁽³⁾	3.00	2.99
Overseas		
Interest spread ⁽¹⁾	1.16	1.06
Benefit of interest free liabilities, provisions and equity ⁽²⁾	0.43	0.55
Net interest margin ⁽³⁾	1.59	1.61
Group		
Interest spread ⁽¹⁾	2.47	2.32
Benefit of interest free liabilities, provisions and equity ⁽²⁾	0.29 ⁽⁴⁾	0.46
Net interest margin ⁽³⁾	2.76	2.78

⁽¹⁾ Difference between the average interest rate earned and the average interest rate paid on funds.

⁽²⁾ A portion of the Group's interest earning assets is funded by interest free liabilities and shareholders' equity. The benefit to the Group of these interest free funds is the amount it would cost to replace them at the average cost of funds.

⁽³⁾ Net interest income divided by average interest earning assets for the period.

⁽⁴⁾ The reduction of this free funding benefit reflects the lower interest rates.

Group Interest Margin

The Group average net interest margin for the year to 30 June 2002 decreased by 2 basis points from the prior year to 2.76%.

This was a positive outcome given that the cash rate was reduced three times during the first half of the year by a total of 75 basis points and then increased twice by a total of 50 basis points during the second half as a tightening of monetary policy was implemented. Combined with this,

there was pressure on margins from increased competition, particularly through the third party broker market.

These reductions were almost entirely offset by the positive impact from the availability of higher levels of retail deposits which provide a relatively low cost source of funding. Retail deposits grew \$5.6 billion or 10% to \$64 billion over the year to 30 June 2002.

Banking Analysis of Performance (continued)

Other Banking Operating Income

The following table sets forth the Group's other banking operating income for the year ended 30 June 2002 together with comparatives.

	Full Year Ended		30/06/02
	30/06/02	30/06/01	vs 30/06/01
	\$M	\$M	%
Lending fees	618	602	3
Commission and other fees	1,242	1,173	6
Trading income	489	426	15
Dividends	5	14	(64)
Net gain on investments and loans	78	56	39
Net profit on sale of property, plant and equipment	12	25	(52)
General insurance premium income	119	107	11
Less general insurance claims	(66)	(57)	16
Other	55	35	57
Total Other Banking Operating Income	2,552	2,381	7

Other Banking Operating Income – Up 7% on 30/06/01

Other Banking Operating Income increased by 7% or \$171 million from \$2,381 million to \$2,552 million over the prior year. Included within other banking income is non interest income earned on transactions and accounts within the Groups' personal, business and corporate customers. The principal reasons for the overall increase are set out below.

Lending Fees – Up 3% on 30/06/01

Lending fees have increased by 3% or \$16 million to \$618 million over the prior year mainly due to increased activity in the home lending market offset by the continuation of a number of discount linked establishment fee offers during the year and the fees earned in relation to Corporate Finance activity.

The Group has also increased its use of third party mortgage brokers during the year with commissions paid being netted off lending fees. The entry fee discounts and use of brokers are part of the Group's strategy to build lending balances to improve future earnings potential.

Commission and Other Fees – Up 6% on 30/06/01

Growth in commission and other fees has been driven by increased transaction activity, particularly within credit cards, with fees up 6% to \$1,242 million at 30 June 2002. In relation to the credit card business there has been a 28% increase in the value of merchants' sales and a 25% increase in the value of credit cardholder sales during the year.

Commission and fee revenue was also positively impacted by a number of changes which were made to the fee structure during the second half of the year.

Retail transaction fees for the year to 30 June 2002 represent 14% (30 June 2001 : 12%) of Other Banking income and 5% (30 June 2001 : 4%) of total Banking income.

Trading Income – Up 15% on 30/06/01

The Group's Financial Markets operations contributed \$489 million of trading income, representing strong growth of 15% over the previous year. Financial Markets trading books benefited from the increased client activity generated by the volatility in global markets throughout the year.

Dividends – Down 64% on 30/06/01

Dividend income represents dividends earned on the Group's strategic investments. Some of these investments were sold during the current and previous year.

Net Gain on Investments and loans – Up 39% on 30/06/01

Gains during the current year included the profit on sale of certain strategic investments totalling \$53 million. In the previous year the profit included the sale of the Group's interest in Brisbane Airports Corporation Ltd.

Net Profit on Sale of Property Plant and Equipment – Down 52% on 30/06/01

The current year includes the gain on sale of properties in Melbourne and Brisbane CBDs during October 2001 as a continuation of the Group's sale and leaseback strategy.

General Insurance Income (net of claims) – Up 6% on 30/06/01

General Insurance premium income less claims has increased slightly to \$53 million for the current financial year.

Banking Analysis of Performance (continued)

Charge for Bad and Doubtful Debts

The following table sets out the charge for bad and doubtful debts for the year ending 30 June 2002 together with comparatives.

	Full Year Ended	
	30/06/02	30/06/01
	\$M	\$M
Specific Provisioning		
New and increased provisioning	546	495
Less provisions no longer required	(51)	(84)
Net specific provisioning	495	411
Provided from general provision	(495)	(411)
Charge to profit and loss	-	-
General provisioning		
Direct write offs	51	35
Recoveries of amounts previously written off	(56)	(88)
Movement in general provision	(41)	27
Funding of specific provisions	495	411
Charge to profit and loss	449	385
Total Charge for Bad and Doubtful Debts	449	385
Bad debt expense / Risk weighted assets	0.32%	0.28%

Total charge for bad and doubtful debts for the year ended 30 June 2002 was \$449 million which was \$64 million (17%) higher than the charge in the previous year. This increase is primarily related to a small number of large corporate and commercial lending exposures that became impaired during the first half of the year and have been provisioned for potential loss. As previously disclosed to the market, these include Pasmenco (net exposure \$347 million) and Enron (net exposure \$100 million) in the first half of the financial year. Bad debt expense in the second half was \$159 million, down from \$290 million in the first half with a reduction in corporate defaults in the second half and an improvement in credit quality.

Provisions for Impairment

	Full Year Ended	
	30/06/02	30/06/01
	\$M	\$M
General Provisions	1,356	1,399
Specific Provisions	270	234
Total Provisions	1,626	1,633
Total provisions for impairment as a % of gross impaired assets net of interest reserved	183.9	251.6
Specific Provisions for impairment as a % of gross impaired assets net of interest reserved	30.54	36.06
General provisions as a % of risk weighted assets	0.96	1.01

Total provisions for impairment for the Group at 30 June 2002 were \$1,626 million, down 0.4% from 30 June 2001. This level of provisioning is considered adequate to cover any bad debt write offs from the current lending portfolio having regard to the current outlook.

Specific provisions for impairment have increased 15.4% from \$234 million at 30 June 2001 to \$270 million at 30 June 2002, primarily as a result of increased provisioning to cover a small number of large corporate and commercial lending exposures that became impaired during the first half of the year, (most notably the two large corporate defaults mentioned previously).

The general provisions for impairment have reduced to \$1,356 million at 30 June 2002 from \$1,399 million at 30 June 2001, a decrease of 3.1%. The general provision as a percentage of Risk Weighted Assets reduced marginally to 0.96% from 1.01%. This level is consistent with that of other major Australian banks. The general provision as a percentage of risk weighted assets has declined slightly over the last 3 years reflecting the fact that the major growth in credit has been in home loans which have lower credit risk than the rest of our lending portfolio. Gross impaired assets less interest reserved have increased 36% from \$649 million to \$884 million over the year. This has been primarily due to additions to gross impaired assets (including interest reserved) for the year of \$1,069 million (of which 42% relates to the two large corporate defaults mentioned previously).

Funds Management – Business Analysis

The funds management businesses have contributed \$216 million to the Group's result for the year. This represents an increase of \$67 million or 45% over the previous year. The growth in net profit reflects the higher average funds under management achieved this year despite the poor investment returns resulting from the fall in world equity markets, combined with a lower effective tax rate arising from the non recognition of overseas tax losses last year.

The following tables set forth the Group's Funds Management result for the year ending 30 June 2002 together with comparatives.

	Full Year Ended		30/06/02 vs 30/06/01 %
	30/06/02 \$M	30/06/01 \$M	
Funds Management			
Operating income - external	809	701	15
Operating income - internal ⁽¹⁾	33	38	(13)
Total income from funds management business	842	739	14
Operating expenses	548	496	10
Profit before tax	294	243	21
Income tax expense	78	94	(17)
Net profit	216	149	45

The Funds Management business manages both internal funds (Life Insurance statutory fund assets) and external funds (wholesale and retail). The tables below show the split of each type of funds managed.

	30/06/02		30/06/02 vs 30/06/01 %
	\$M	\$M	
Assets held and funds under management (FUM) ⁽²⁾			
Funds management ^{(4) (5)}	77,483	76,954	1
Internal life insurance funds	25,355	24,527	3
Total FUM	102,838	101,481	1
Other life and funds management assets ⁽³⁾	13,163	14,551	(10)
Total	116,001	116,032	-
Australia	92,211	91,810	-
United Kingdom	12,966	14,953	(13)
New Zealand	6,518	4,650	40
Asia	4,306	4,619	(7)
Total	116,001	116,032	-

(1) Income received from the life insurance business to manage statutory funds.

(2) Excludes non-Group funds under trusteeship, custody and administration.

(3) Includes life investment assets managed by parties other than the Group funds management businesses, and other non-investment life assets (including excess of market value over net assets of life insurance subsidiaries).

(4) Funds under management exclude funds under tactical overlay management, \$10 billion at 30 June 2002 (30 June 2001: \$10 billion).

(5) Represents total external funds under management of the Group. ASSIRT reporting includes external funds under management, and funds managed on behalf of the life insurance companies in the Group which are included within life insurance assets. ASB Group funds under management and other international funds under management are not included in the ASSIRT reporting.

Funds Management – Business Analysis (continued)

Despite market pressure on funds management products, the Group's funds management business performed well during 2002. The business achieved a 45% growth in net profit after tax with the result increasing from \$149 million last year to \$216 million this year. The profit before tax increased by \$51 million or 21% to \$294 million as a result of continued strong income growth. Set out below is detailed commentary on the performance and key activities during the year.

Performance Analysis

The funds management business increased net profit after tax by 45% during the year. As shown on page 22, an increase of 21% in pre tax profit was driven by strong revenue growth of 14% and an improvement in the cost to income ratio of 2.0 percentage points. The effective tax rate reduced significantly compared to last year, due to the impact of a change in the tax rate in Australia from 34% to 30% and the non recognition of overseas tax losses last year. Revenue growth of 14% was driven by a higher average funds under management balance throughout the year. The drivers of the higher average funds balance was a solid sales performance due partly to the introduction of Colonial First State products into the Group's proprietary distribution network, and two small acquisitions. Closing FUM was only slightly above opening FUM, increasing \$1.4 billion to \$103 billion. The closing balance was adversely affected by the poor investment returns resulting from volatility in global equity markets and a general move by customers into deposit products as a safe haven from investment market volatility. Costs increased by 10% during the year, reflecting the costs to develop and launch a

number of new products, including the recently launched masterfund (FirstChoice), a range of nil entry fee products and a fund-of-fund hedge fund.

New Products

During the year, a number of new investment products have been launched. This includes a new masterfund (FirstChoice), a range of nil entry products, a global geared share fund and a multi-managed hedge fund. In the Property business, the Group has recently launched an Opportunistic Fund to complement its existing product set and meet the needs of its wholesale customer base. Internationally a number of new products have been launched including a UK equities mid-cap fund, a lifetime fund and an innovative Global Opportunities fund. The rollout of new products is a key part of the strategy to diversify the product offerings available to customers.

Restructure

In December 2001, it was announced that the two funds management businesses, being Colonial First State and Commonwealth Investment Management, would be combined. The integration of these businesses will bring together two strong fund managers with funds under management in excess of \$100 billion. This integration will facilitate efficiency improvements through combining systems and back office processing. In terms of investment management, the Group will have one domestic brand, being Colonial First State. The merger will provide diversity in terms of different investment styles in Australian equities and scale in other asset classes such as fixed income.

The analysis of the movement of funds by product category is as follows:

Year to Date June 2002

	Opening Balance 30/06/01 \$M	Inflows \$M	Outflows \$M	Investment Income \$M	Other Movements and Transfers \$M	Closing Balance 30/06/02 \$M
Funds Under Management (including Life Insurance)						
Retail	33,948	15,125	(13,421)	(941)	(686)	34,025
Wholesale	43,006	15,040	(12,014)	(1,552)	(1,022) ⁽¹⁾	43,458
Internal managed life	24,527	5,663	(5,617)	(495)	1,277 ⁽¹⁾	25,355
Total FUM	101,481	35,828	(31,052)	(2,988)	(431)	102,838

Year to Date June 2001

	Opening Balance 30/06/00 \$M	Inflows \$M	Outflows \$M	Investment Income \$M	Other Movements and Transfers \$M	Closing Balance 30/6/01 \$M
Funds Under Management (including Life Insurance)						
Retail	24,554	20,616	(12,337)	1,262	(147)	33,948
Wholesale	40,712	13,228	(12,436)	985	517	43,006
Internal managed life	22,916	4,964	(5,045)	1,573	119	24,527
Total FUM	88,182	38,808	(29,818)	3,820	489	101,481

⁽¹⁾ Includes \$1.5 billion reclassification between retail and internal funds under management. Other movements primarily relate to foreign exchange gains and losses.

Funds Management – Business Analysis (continued)

The tables on page 23 show that FUM growth over the year to 30 June 2002 was only \$1.4 billion or 1% compared to \$13.3 billion in the prior year. Much of this reduced growth resulted from investment returns which were negative \$3.0 billion this year, compared to a gain of \$3.8 billion in the prior year. In terms of net inflows on total FUM, the Group achieved \$4.8 billion this year compared to \$9.0 billion last year. The current year was impacted by the following factors:

- The market has seen a drop off in retail inflows initially due to the events of September 11 and subsequently in response to the investment market volatility, particularly during the last quarter of the year. This also resulted in a greater preference for deposit style products where fixed returns were provided. The growth in retail deposits of the Group by 10% during the year was partially due to this change in customer behaviour.
- The Group lost wholesale mandates of approximately \$1 billion in Australia following the announcement of the departure of a high profile investment manager. In addition, the UK business saw the withdrawal of a

further \$2 billion of wholesale FUM due to the run down of an asset management contract.

The mix of net inflows between retail and wholesale business varied during the year due to the impact of masterfund business on the wholesale inflows. A growing proportion of funds sourced through external channels are allocated to Masterfunds which are treated as wholesale business.

The Group's market share of net retail inflows was down in the March 2002 quarter mainly due to the outflows of the cash management trust product. This was offset by the growth in retail deposits discussed previously. The Group continues to hold a dominant position in the Australian market place with 16.3% market share of retail FUM at 31 March 2002 down slightly from 16.4% at 30 June 2001. (*Source: Plan for Life*). Across most product categories and asset classes, the Group has a strong market position. The recently announced property transaction with Gandel will strengthen the Group's market position in both the wholesale and retail property market.

Life Insurance – Business Analysis

The life insurance operations contributed \$218 million to the Group's result for the financial year. Operating margins in Australia increased by \$20 million over the last year, however a poor performance in Asia resulted in a \$30 million reduction in the operating margin for the region with New Zealand's margin up slightly to \$25 million. Investment earnings on shareholders' funds after tax reduced by \$93 million over the last year.

As at 30 June 2002, life insurance assets totalled \$36 billion, which is a decrease of 4% over 30 June 2001. The results from the Group's life insurance operations are detailed on the following pages.

The following table sets forth the Group's Life Insurance Income result for the year ending 30 June 2002 together with comparatives.

Summary Financial Performance (excluding appraisal value uplift)	Full Year Ended		30/06/02
	30/06/02	30/06/01	vs 30/06/01
	\$M	\$M	%
Life Insurance			
Margin on Services operating income - external	997	1,268	(21)
Operating expenses - external	(724)	(716)	1
Operating expenses - internal ⁽¹⁾	(33)	(38)	(13)
Total expenses	(757)	(754)	0
Profit from life insurance activities before tax	240	514	(53)
Income tax expense attributable to:			
Policy holder	(36)	94	large
Corporate	58	100	(42)
Net profit after tax	218	320	(32)

⁽¹⁾ Management charge paid to Funds Management.

The table above details the operating income, operating expenses and tax expense from the Group's life insurance businesses, in accordance with Accounting Standard AASB 1038.

It should be noted that income, operating expenses and tax expense included in the table above includes both policyholders' and shareholders' components.

The most significant impact of this is the inclusion of policyholder tax within operating income and tax expense. For the year the effect of this is a \$36 million credit compared with a \$94 million charge for the 30 June 2001

year. The reduction is mainly attributable to reduced investment earnings on behalf of policyholders for the period which recorded a loss for the year. Inclusion of this item in accordance with accounting standards causes fluctuations in the cost to income ratio and the effective tax rate between periods.

The net profit after tax relates to shareholders. In order to gain a more informative understanding of the shareholder profit after tax, the sources of profit are analysed in the table below.

The table below details the sources of after tax profit from the Group's life insurance operations.

Sources of profit from life insurance activities	Full Year Ended		30/06/02
	30/06/02	30/06/01	vs 30/06/01
	\$M	\$M	%
The Margin on Services profit from ordinary activities after income tax is represented by:			
Planned profit margins	234	257	(9)
Experience variations	(37)	(63)	(41)
New business losses / reversal of capitalised losses	(9)	(2)	large
Other	(3)	2	large
Operating margins	185	194	(5)
Investment earnings on assets in excess of policyholder liabilities ⁽¹⁾	33	126	(74)
Net profit after tax	218	320	(32)

⁽¹⁾ Includes a gain of \$47 million in the June 2001 year resulting from the transfer of certain strategic investments to the life insurance business. Excluding this gain investment income decreased 58% or \$46 million over the prior year.

Life Insurance – Business Analysis (continued)

Underlying results of life insurance businesses by geographical region.

The table below details the underlying results of the Group's life insurance businesses by geographical region.

Full Year Ended	Australia		New Zealand		Asia	
	30/06/02	30/06/01	30/06/02	30/06/01	30/06/02	30/06/01
	\$M	\$M	\$M	\$M	\$M	\$M
Operating Margins	210	190	25	24	(50)	(20)
Investment earnings on assets in excess of policyholder liabilities	26	129	3	(5)	4	2
Profit after tax	236	319	28	19	(46)	(18)

Operating margins in Australia increased by \$20 million to \$210 million from \$190 million in the previous year. This represents growth of 11% driven by improved mortality claims experience, the growth in inforce premium in the risk business of 14% together with the benefit of higher average FUM balances within the unit linked investment business. These were partly offset by the run off in traditional and investment account business. The Australian life insurance business consists of two segments; risk business that includes the mortality and morbidity products, annuities and traditional life products, and the investment business, which includes the investment linked products. As part of the reorganisation of the Group announced on 20 December 2001 the investment products of the life companies were brought under the same management structure as the funds management business. For this reporting period results have been classified according to the company within which business is written. In future reporting periods the results for these investment products will be incorporated in the funds management segment.

The New Zealand operations maintained steady margins over the reporting period reflecting the benefits of the Colonial integration. The persistency and claims experience impacting the first half New Zealand results improved during the second half of the year.

The Asian life businesses were adversely affected by the downturn in global equity markets. Operating margins were down \$30 million from the prior period. In addition to the downturn in global equity markets there has been a number of start up costs associated with the pensions and retirement business within Hong Kong and other one off costs.

Investment returns on shareholder funds after tax in the prior year included \$47 million for the transfer of certain strategic investments. Investment returns this year included a \$15 million write down in Asian businesses. Excluding these items, investment returns on shareholder funds have fallen by \$31 million this year. The fall is due primarily to the global downturn in equity markets. Life insurance tangible assets in excess of liabilities amounted to approximately \$2.7 billion as at 30 June 2002 of which \$2.6 billion was supported by investment earning assets. The Group has maintained a balanced weight between growth and fixed interest investments during the period. Despite the short term volatility in world equity markets the Group considers a balanced weighting in investment assets appropriate due to the long term focus of the business. The asset allocation of shareholders funds at 30 June 2002 was:

- Growth assets 50%
- Income assets 50%

Life Insurance Funds Flow and New Business

Investment Business

	Opening Balance 01/07/01	Inflows	Outflows	Investment Income	Other Movements	Closing Balance 30/06/02
	\$M	\$M	\$M	\$M	\$M	\$M
Superannuation	15,473	3,731	(3,591)	(337)	848	16,124
Retirement	4,888	1,157	(1,161)	(104)	357	5,137
Investment	1,669	232	(361)	(65)	52	1,527
Traditional	2,497	543	(504)	11	20	2,567
Total	24,527	5,663	(5,617)	(495)	1,277	25,355

The table above shows that net inflows for investment products offered by the life companies which were flat for the year due to the impact of offering Colonial First State products in preference to Commonwealth and Colonial life products and the introduction of Colonial First State products into the Group's proprietary distribution network.

Risk Business

Annual Premiums	Opening Balance 01/07/01	Sales/New Business	Lapses	Closing Balance 30/06/02
	\$M	\$M	\$M	\$M
Personal	522	128	(68)	582
Group	190	63	(25)	228
Total	712	191	(93)	810

The level of inforce premium on the life insurance risk business increased by \$98 million or 14% to \$810 million.

Summary of Life Insurance and Funds Management Valuations

The following table sets out the components of the carrying values of the Group's life insurance and funds management businesses. These are Directors' valuations, based on appraisal values using a range of economic and business assumptions determined by management, which are reviewed by independent actuaries Trowbridge Consulting. In determining the carrying value, directors' take account of a number of factors which result in a more conservative value being adopted than the appraisal values reviewed by Trowbridge. The directors have considered potential impacts to the appraisal value from:

- A change to long term investment assumptions if short term volatility emerges as a long term structural change to equity market returns.
- The inherent risk in forecasting future business patterns over an extended horizon.

The key changes to actuarial assumptions that were made are also summarised.

As at 30 June 2002

	Funds		Life Insurance			Total
	Management	Australia		New Zealand	Asia ⁽¹⁾	
		Investment	Risk ⁽⁵⁾			
	\$M	\$M	\$M	\$M	\$M	\$M
Shareholders net tangible assets	234	468	1,209	334	679	2,924
Value of inforce business	866	355	178	179	40	1,618
Embedded Value	1,100	823	1,387	513	719	4,542
Value of future new business	3,735	(75) ⁽⁶⁾	23	275	80	4,038
Carrying Value	4,835	748	1,410	788	799	8,580
Increase in carrying value since 30 June 2001	1,546	(1,125)	148	152	(144)	577

Analysis of Movement since 30 June 2001

	Funds		Life Insurance			Total
	Management	Australia		New Zealand	Asia ⁽¹⁾	
		Investment	Risk ⁽⁵⁾			
	\$M	\$M	\$M	\$M	\$M	\$M
Profits	216	148	88	28	(46)	434
Capital movements ⁽²⁾	85	-	74	68	131	358
Dividends paid	(325)	(179)	(97)	(24)	-	(625)
Disposals of business ⁽³⁾	-	-	-	-	(61)	(61)
FX movements	(11)	-	-	26	(64)	(49)
Change in Shareholders NTA	(35)	(31)	65	98	(40)	57
Value transfer ⁽⁴⁾	1,142	(1,142)	-	-	-	-
Acquired excess	58	-	-	-	-	58
Disposals of business ⁽³⁾	-	-	-	-	(15)	(15)
Transfer of CFS Property	147	-	-	-	-	147
Underlying Appraisal Value Uplift	234	48	83	54	(89)	330
Increase to 30 June 2002	1,546	(1,125)	148	152	(144)	577

(1) The Asian Life businesses are not held in the market value environment and are carried at net assets plus an excess representing the difference between appraisal value and net assets at the time of acquisition. This excess which effectively represents goodwill is being amortised on a straight line basis over 20 years.

(2) Includes capital injections and payments for investments in controlled entities.

(3) Represents the sale of the Thailand and Malaysian life insurance business.

(4) Represents the transfer of value between the life insurance companies and the funds management businesses arising from decisions to replace some life products with Colonial First State products and the impact of introducing Colonial First State products to the Group's proprietary distribution network.

(5) Includes risk traditional, investment account and annuity business.

(6) Life insurance investment business comprises mainly corporate unit linked and superannuation business. The negative value of \$75m in the Australian Life Investment future new business represents products that are profitable but are not achieving returns greater than the discount rate. The lower return reflects a higher cost structure for these products that will be addressed as part of the Group's cost restructure.

Change in Life Insurance and Funds Management Valuations

The valuations adopted have resulted in a total valuation increase of \$577 million since 30 June 2001. The main components of the increase comprise:

- A \$57 million change to net tangible assets comprising:
 - Profits of \$434 million.
 - Capital movements of \$358 million
 - Dividend payments of \$625 million
 - Disposals of businesses in Asia of \$61 million.
 - Foreign exchange translation losses of \$49 million.
- Acquired excess of \$58 million, predominantly management rights to Kiwi Income Properties Trust, and disposal of excess relating to Thailand of \$15 million.

- Appraisal Value uplift which is reported within the Group's profit for the year of \$477 million being \$147 million relating to the transfer in of CFS property and an underlying uplift of \$330 million.

Capital movements in the current year of \$358 million comprised:

- Injection of equity into the Australian life, UK Funds Management and NZ life businesses to enable repayment of debt in individual companies.
- Strengthening of equity into the Asian life business to strengthen the capital position in response to the volatile investment markets and to fund business growth.

The \$330 million underlying uplift reflects the directors' view that the fundamentals of the life insurance and funds

Summary of Life Insurance and Funds Management Valuations (continued)

management market remain sound and that the Group will continue its current positioning within those markets. Drivers of the appraisal value uplift for each business were:

- The managed funds and investment business recognised a total uplift of \$282 million reflecting the expected growth in value together with the positive impact of changes to persistency assumptions in Colonial First State, offset by the negative experience impact of poor investment returns during the year. The uplift for the funds management business of \$234 million is lower than the prior year uplift of \$596 million due to a lower growth in FUM during the current year and changes to the sales growth assumptions.
- The Australian life insurance risk business saw a net appraisal value uplift of \$83 million arising from improved claims experience on morbidity and mortality business offset by a lower persistency level.
- The Asian life insurance excess was written down by \$89 million reflecting the impact of a downturn in global equity markets, foreign exchange movements, and lower sales levels within the traditional Hong Kong life insurance market.
- The net appraisal value uplift for New Zealand of \$54 million reflects the deterioration in morbidity and health care experience recognised in the first half of the year offset by new business growth, the positive impact of valuing tax losses available following the restructure of the New Zealand life insurance operations and significant foreign exchange gains.

During the year, a number of significant changes have occurred in the Group's Australian funds management business that have impacted the appraisal value process and calculations. As a result it is considered appropriate to discuss the appraisal value at an aggregate level, combining the Colonial First State business and the Commonwealth business, some of which is within the life insurance segment labelled "investment" business above.

The transfer of value between the life investment business and the funds management business reflected management decisions made during the year to offer selected Colonial First State products ahead of Colonial

and Commonwealth life investment products and the impact of introducing Colonial First State products to the Group's proprietary distribution network. The value transfer of \$1,142 million is the value of new business at the beginning of the current year associated with the products transferred. In future reporting periods, the two businesses will be reported as one segment.

Valuation Assumptions

The key change in assumptions used in the life insurance and funds management valuation since 30 June 2001 are:

Australian Managed Funds

- Sales volumes and margins changes to reflect new product mix on transfer of business from Colonial and Commonwealth life and funds management business to Colonial First State.
- Improved persistency assumptions related to experience during the period.
- Change to tax assumptions for business previously written in the life insurance environment now written through the managed funds business.

Australian Risk

- Improved claims assumptions on the morbidity and mortality business.
- Reduced persistency assumptions for mortgage products.

New Zealand

- Deterioration in the claims assumption for the morbidity and health care business.
- Recognition of tax losses utilised in the Group.

Asian Life

- Change in the persistency assumption.
- Reduction in assumptions for new business sales.
- Slight reduction in experience assumptions.

Group Operating Expenses

Group Operating Expenses

The following table sets forth the Group's operating expenses for year ended 30 June 2002 together with comparatives.

	Full Year Ended		30/06/02 vs 30/06/01 %
	30/06/02 \$M	30/06/01 \$M	
Banking	3,929	3,958	(1)
Funds Management	548	496	10
Life Insurance	724	716	1
Total Operating Expenses	5,201	5,170	1

Cost to Income Ratios	30/06/02 %	30/06/01 %
Banking	54.1	57.7
Funds Management	65.1	67.1
Life Insurance	75.9	59.5
Life Insurance (normalised)	63.5	64.0
Group	57.4	58.6
Group (normalised)	56.1	59.2

The Group's operating expenses were \$5,201 million for the year, an increase of \$31 million on the previous year. The outcome was the result of a reduction in the banking expenses offset by volume related increases in funds management. Life insurance expenses were in line with the prior year.

The movement in expenses within these businesses, primarily relates to:

- In the current period additional synergies of \$205 million were achieved compared to the prior year.
- Costs increased by \$134 million due to increased volumes within the banking business, primarily within home lending where balance growth was double that of the prior year, together with transaction volumes relating to credit cards which increase processing and loyalty program costs.
- A 4% wage increase as the result of the finalisation of an enterprise bargaining agreement in the second half of last year which, net of reduction in staff numbers, added \$30 million to the current period costs.
- Life insurance expenses were flat reflecting reduced sales volumes and a continuation of expense synergies achieved during the second half of last year.
- Costs in the funds management business increased by \$52 million due to increased sales and processing volumes in Australia, together with marketing and infrastructure costs relating to the establishment of two new funds during the period.

The Group's cost to income ratio reflects the different business mix. To remove the volatility of investment earnings from the life insurance cost to income ratio, a 'normalised' ratio has been calculated which removes the effect of policyholder tax and uses the long term assumption of an 8% pre-tax return on insurance shareholder funds.

On this basis there was a decrease in the Group cost to income ratio of 3.1 percentage points from 59.2% to 56.1%.

The Banking cost income ratio decreased by 3.6 percentage points from 57.7% in the year ended 30 June 2001 to 54.1% in the current year. This reflects additional synergies achieved in relation to the Colonial integration offset partly by volume-based increases and a general increase in average staff costs.

The Funds Management cost to income ratio has been reduced by 2.0 percentage points from 67.1% in the previous year to 65.1% in the current year. This change was driven by a solid sales performance, increasing revenues. The reduction in the cost to income ratio was achieved in a period where income was negatively impacted by investment markets and where the business incurred the costs associated with launching new funds during the period and development of product service offerings launched late in the year.

The Life Insurance cost to income ratio on a normalised basis has reduced by 0.5 percentage points from 64.0% in the previous year 63.5% in the current year.

Other Group Items

	Full Year Ended		30/06/02
	30/06/02	30/06/01	vs 30/06/01
	\$M	\$M	%
Expenses by category as follows:			
Staff	2,390	2,360	1
Occupancy and equipment	578	604	(4)
Information technology services	838	788	6
Other expenses	1,395	1,418	(2)
Total Operating Expenses	5,201	5,170	1

Staff Numbers

The table below details the Group's staff numbers as at 30 June 2002. Staff number reductions relate to the finalisation of the Colonial integration offset by a net increase in other staff movements reflecting business growth.

Staff Numbers as at	30/06/02	30/06/01
Full time staff	30,378	31,976
Part time staff	7,714	7,161
Full time staff equivalent	34,498	34,960
Australia	28,742	28,837
New Zealand	3,932	3,872
Other Overseas	1,824	2,251
	34,498	34,960

	Full Year Ended		30/06/02
	30/06/02	30/06/01	vs 30/06/01
	\$M	\$M	%
Income Tax Expense			
Banking	816	705	16
Funds Management	78	94	(17)
Life Insurance - Corporate	58	100	(42)
Corporate tax	952	899	6
Policyholder	(36)	94	large
Total Income Tax Expense	916	993	(8)
Effective tax rate			
Banking	28%	28%	
Funds Management	27%	39%	
Life Insurance (Corporate)	21%	24%	

Income tax expense has decreased 8% from \$993 million for 30 June 2001 to \$916 million for 30 June 2002.

The tax expense consists of corporate tax of \$952 million (30 June 2001 \$899 million) and policyholder tax of a \$36 million credit (30 June 2001 \$94 million expense).

The banking effective tax rate is the same as in the prior year. This reflected the lower corporate tax rate of 30% this period against 34% last year, the utilisation of overseas tax losses during the 30 June 2001 year which did not occur to the same extent this period, lower dividend rebates and non allowable losses for offshore expenses.

The funds management effective tax rate was lower due to the lower corporate tax rate. The prior year also included an overprovision and the non-recognition of overseas tax losses.

Other Group Items (continued)

Restructuring Provisions

Provisions for restructuring costs totalling \$545 million (\$417 million after tax) were booked as of 30 June 2001 to cover the costs of integrating the Colonial operations (acquired 13 June 2000) into the Group. At 30 June 2001 \$201 million (\$142 million after tax) remained unutilised. During the current period a further \$166 million was utilised leaving a balance of \$35 million (\$25 million after tax) in the provision at 30 June 2002.

Integration related synergies of \$450 million (annualised) were achieved by the end of June 2002. This comprises forecast cost synergies of \$380 million and revenue synergies of \$70 million.

ASIC Surveillance

The Group has reviewed the areas of focus in the Australian Securities and Investment Commission's recently announced accounting surveillance. The Group adopts a conservative approach to the capitalisation and deferral of expenses. Revenue is only recognised to the extent that it is probable that the future benefits will flow to the Group. Interest and fee income are brought to account on an accrual basis except for establishment fees, advisory fees and other fees for services. All entities in the Group are consolidated where it is determined that there is capacity to control as defined in AASB 1024: Consolidated Accounts.

Dividends

Dividends will be based on Cash Earnings Per Share, having regard to the following:

- Rate of business growth;
- Capital adequacy;
- Investment requirements;
- The cyclical nature of life insurance investment returns and expectations of long term investment returns, and
- A range of other factors.

Subject to these factors, the Group will continue to maintain a high payout ratio relative to its peers. The dividend payout ratio for the year was 76.2% on a cash basis.

Capital Management

The Bank maintains a strong capital position. This is recognised in its credit ratings. Moody's Investor Services and Standard & Poor's affirmed these during the current year.

	Long-term	Short-term	Affirmed
Fitch Ratings	AA	F1+	Jan 02
Moody's Investor Services	Aa3	P-1	Oct 01
Standard and Poor's	AA-	A-1+	May 02

Risk Weighted Capital Ratios

	30/06/02	31/12/01	30/06/01
	%	%	%
Tier 1 Capital	6.78	6.75	6.51
Total Capital	9.80	9.31	9.16

The increase in the ratios from 30 June 2001 can be attributed to:

- An increase in tier 1 capital of \$546 million due principally to increased retained earnings and the issue of additional shares to satisfy the DRP in respect of the final dividend for 2000/01.
- The capital base increased by \$1,136 million partly due to the increase in tier 1 capital noted above, a reduced deduction for the investment in life insurance and funds management businesses (mainly due to an increase in the non-recourse borrowings that fund this investment) and an increase in eligible dated subordinated debt issues.
- Risk weighted assets increased from \$138 billion to \$141 billion. Loans secured by residential mortgages increased by \$8.5 billion. However, the increase in risk weighted assets figure masks a reduction achieved by improved classification of assets by risk weight, principally through the identification of additional eligible security and by more accurate classification of counterparties.

As required by APRA, the investment in life insurance and funds management is deducted from regulatory capital to arrive at the ratios shown above. This treatment does not recognise the surplus capital held in the life insurance and funds management businesses, nor does it give credit for the risk diversification benefits provided by these businesses.

Over recent years, the Bank has made regular returns of capital in the form of share buy-backs. The Bank continues to examine ways in which it can manage its capital more efficiently. There is capacity within the Group to raise hybrid capital in a variety of forms and the market appetite for Commonwealth Bank instruments remains strong. Subject to market conditions, this provides the opportunity for the Bank to consider further capital management initiatives in 2002.

In September 2001, 5,954,040 new shares were issued at \$28.79 each to satisfy shareholder participation in the DRP in respect of the final dividend for 2000/01. The Bank purchased on-market the shares needed to satisfy shareholder participation in the DRP in respect of the interim dividend for 2001/02. It expects to do the same in respect of the final dividend for 2001/02.

Commonwealth Bank
Commonwealth Bank of Australia
ACN 123 123 124

**Financial Disclosures for
the year ended 30 June 2002**

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Consolidated Statement of Financial Performance

As at 30 June 2002

	Note	30/06/02 \$M	30/06/01 \$M
Interest income		10,455	11,900
Interest expense		5,745	7,426
Net interest income		4,710	4,474
Other income:			
Revenue from sale of assets		718	185
Written down value of assets sold		(628)	(104)
Other		2,462	2,300
Net banking operating income		7,262	6,855
Premiums and related revenue		1,140	1,073
Investment revenue		(100)	1,698
Claims and policyholder liability expense		(43)	(1,503)
Life insurance margin on services operating income		997	1,268
Funds management fee income		809	701
Net life insurance and funds management operating income before appraisal value uplift		1,806	1,969
Total net operating income before appraisal value uplift		9,068	8,824
Charge for bad and doubtful debts		449	385
Operating expenses:			
Staff expenses		2,390	2,360
Occupancy and equipment expenses		578	604
Information technology services		838	788
Other expenses		1,395	1,418
		5,201	5,170
Appraisal value uplift		477	474
Goodwill amortisation		(323)	(338)
Profit from ordinary activities before income tax		3,572	3,405
Income tax expense	1	916	993
Profit from ordinary activities after income tax		2,656	2,412
Outside equity interests in net profit		(1)	(14)
Net profit attributable to shareholders of the Bank		2,655	2,398
Foreign currency translation adjustment		(146)	98
Revaluation of properties		(1)	5
Total valuation adjustments		(147)	103
Total changes in equity other than those resulting from transactions with owners as owners		2,508	2,501
		Cents per share	
Earnings per share based on net profit distributable to shareholders of the Bank			
Basic		209.6	189.6
Fully diluted		209.3	189.3
Dividends provided for, reserved or paid per share attributable to shareholders of the Bank:			
Ordinary shares		150	136
Preference shares (issued 6 April 2001)		970	261

Consolidated Statement of Financial Position

As at 30 June 2002

	Note	30/06/02 \$M	30/06/01 \$M
Assets			
Cash and liquid assets		6,044	3,709
Receivables due from other financial institutions		7,728	4,622
Trading securities		8,389	6,909
Investment securities		10,766	9,705
Loans, advances and other receivables	2	147,074	136,059
Bank acceptances of customers		12,517	12,075
Life insurance investment assets		30,109	31,213
Deposits with regulatory authorities		89	61
Property, plant and equipment		862	919
Investment in associates		313	400
Intangible assets		5,391	5,716
Other assets		20,366	19,023
Total Assets		249,648	230,411
Liabilities			
Deposits and other public borrowings	4	132,800	117,355
Payables due to other financial institutions		7,864	6,903
Bank acceptances		12,517	12,075
Provision for dividend		1,040	779
Income tax liability		1,276	1,355
Other provisions		834	1,007
Life insurance policyholder liabilities		25,917	27,029
Debt issues		23,575	24,484
Bills payable and other liabilities		17,342	13,872
		223,165	204,859
Loan Capital		5,427	5,704
Total Liabilities		228,592	210,563
Net Assets		21,056	19,848
Shareholders' Equity			
Share Capital			
Ordinary share capital		12,665	12,455
Preference share capital		687	687
Reserves		4,226	4,091
Retained profits		1,452	1,160
Shareholders' equity attributable to shareholders of the Bank		19,030	18,393
Outside equity interests:			
Controlled entities		9	(3)
Life insurance statutory funds and other funds		2,017	1,458
Total outside equity interests		2,026	1,455
Total Shareholders' Equity		21,056	19,848

Consolidated Statement of Cash Flows

For the full year ended 30 June 2002

	Note	30/06/02 \$M	30/06/01 \$M
Cash Flows From Operating Activities			
Interest received		10,683	12,059
Dividends received		5	14
Interest paid		(5,805)	(7,704)
Other operating income received		3,706	2,800
Expenses paid		(5,366)	(5,583)
Income taxes paid		(926)	(1,252)
Net decrease (increase) in trading securities		(1,159)	(262)
Life insurance			
Investment income		870	900
Premiums received ⁽¹⁾		5,689	6,286
Policy payments ⁽¹⁾		(5,704)	(5,423)
Net Cash provided by Operating Activities		1,993	1,835
Cash Flows from Investing Activities			
Proceeds for acquisition of entities		(57)	(414)
Proceeds from disposal of entities and businesses		314	-
Net movement in investment securities			
Purchases		(23,488)	(19,676)
Proceeds from sale		295	28
Proceeds at or close to maturity		22,192	19,654
Withdrawal (lodgement) of deposits with regulatory authorities		(28)	15
Net increase in loans, advances and other receivables		(11,702)	(4,181)
Proceeds from sale of property, plant and equipment		109	157
Purchase of property, plant and equipment		(164)	(132)
Net decrease (increase) in receivables due from other financial institutions not at call		(855)	(184)
Net decrease (increase) in securities purchased under agreements to resell		(1,376)	(891)
Net decrease (increase) in other assets		(241)	1,504
Life insurance			
Purchases of investment securities		(13,926)	(21,229)
Proceeds from sale/maturity of investment securities		14,618	20,556
Net Cash used in Investing Activities		(14,309)	(4,793)
Cash Flows from Financing Activities			
Buy back of shares		-	(724)
Proceeds from issue of shares (net of costs)		39	723
Net increase (decrease) in deposits and other borrowings		15,135	5,246
Net movement in debt issues		(967)	(2,099)
Dividends paid		(1,661)	(1,368)
Net movements in other liabilities		1,809	(1,010)
Net increase (decrease) in payables due to other financial institutions not at call		211	1,396
Net increase (decrease) in securities sold under agreements to repurchase		310	(485)
Other		(100)	(69)
Net Cash provided by Financing Activities		14,776	1,610
Net Increase (decrease) in Cash and Cash Equivalents		2,460	(1,348)
Cash and Cash Equivalents at beginning of period		38	1,386
Cash and Cash Equivalents at end of period		2,498	38

It should be noted that the Bank does not use this accounting Statement of Cash Flows in the internal management of its liquidity positions.

⁽¹⁾ These are gross premiums and policy payments before splitting between policyholders and shareholders.

Appendices

- 1. INCOME TAX EXPENSE**
- 2. LOANS, ADVANCES AND OTHER RECEIVABLES**
- 3. ASSET QUALITY**
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1. INCOME TAX EXPENSE

Income tax expense shown in financial statements differs from the prima facie tax charge calculated at current taxation rates on net profit.

	Full Year Ended	
	30/06/02	30/06/01
	\$M	\$M
Profit from ordinary activities before income tax		
Banking	2,884	2,512
Life insurance	240	514
Funds management	294	243
Appraisal value uplift	477	474
Goodwill amortisation	(323)	(338)
	<u>3,572</u>	<u>3,405</u>
Prima facie income tax at 30% (30 June 2001 : 34%)		
Banking	866	853
Life insurance	72	175
Funds management	88	83
Appraisal value uplift	143	161
Goodwill amortisation	(97)	(114)
	<u>1,072</u>	<u>1,158</u>
Add (or deduct) permanent differences expressed on a tax effect basis		
Current period		
Tax rate change	-	3
Specific provisions for offshore bad and doubtful debts not tax effected	(3)	8
Taxation rebates (net of accruals)	(24)	(35)
Tax adjustment referable to policy holder income ⁽¹⁾	(25)	62
Non-assessable income - life insurance surplus ⁽¹⁾	(25)	(43)
Change in excess of net market value over net assets of life insurance controlled entities	(143)	(161)
Non-deductible goodwill amortisation	97	115
Non-assessable capital gains	-	(38)
Tax losses recognised	(35)	(65)
Employee share acquisition plan	(8)	(8)
Other items	17	26
	<u>(149)</u>	<u>(136)</u>
Prior Periods		
Other	(7)	(29)
Total income tax expense	<u>916</u>	<u>993</u>
Income tax attributable to profit from ordinary activities		
Banking	816	705
Life insurance	58	100
Funds management	78	94
Corporate tax	952	899
Policy holder tax	(36)	94
Total Income Tax Expense	<u>916</u>	<u>993</u>

⁽¹⁾ The prima facie life insurance income tax of \$72 million less these permanent differences equals the total life insurance tax expense of \$22 million.

2. LOANS, ADVANCES AND OTHER RECEIVABLES

	30/06/02 \$M	30/06/01 \$M
Australia		
Overdrafts	2,513	2,785
Housing loans	75,394	65,466
Credit card outstandings	4,552	3,962
Lease financing	4,094	4,497
Bills discounted	1,753	1,556
Term loans	38,544	40,650
Redeemable preference share financing	-	306
Equity participation in leveraged leases	1,331	1,536
Other lending	968	1,301
Total Australia	129,149	122,059
Overseas		
Overdrafts	1,691	1,304
Housing loans	10,444	8,045
Credit card outstandings	274	232
Lease financing	256	256
Term loans	7,494	6,790
Redeemable preference share financing	695	471
Other lending	43	38
Total Overseas	20,897	17,136
Gross Loans, Advances and Other Receivables	150,046	139,195
Less:		
Provisions for impairment		
General provision	(1,356)	(1,399)
Specific provision against loans and advances	(270)	(233)
Unearned income		
Term loans	(631)	(643)
Lease financing	(426)	(514)
Leveraged leases	(162)	(186)
Interest reserved	(59)	(68)
Unearned tax remissions on leveraged leases	(68)	(93)
	(2,972)	(3,136)
Net Loans, Advances and Other Receivables	147,074	136,059

3. ASSET QUALITY

	30/06/02 \$M	30/06/01 \$M
Balances of Impaired Assets		
Total Impaired Assets		
Gross non-accruals	943	715
Gross restructured	-	1
Other assets acquired through security enforcement	-	1
Total Gross impaired assets	943	717
Less Interest reserved	(59)	(68)
Subtotal	884	649
Less Specific provisions for impairment	(270)	(234)
Total Net Impaired assets	614	415
Net Impaired Assets by Geographical Segments		
Australia	457	302
Overseas	157	113
Total	614	415

Provisions for Impairment	Full Year Ended	
	30/06/02	30/06/01
	\$M	\$M
General Provisions		
Opening balance	1,399	1,358
Charge against profit and loss	449	385
Acquired provisions, including fair value adjustments	-	51
Transfer to specific provisions	(495)	(411)
Bad debts recovered	56	88
Adjustments for exchange rate fluctuations and other items	1	(29)
	1,410	1,442
Bad debts written off	(54)	(43)
Closing balance	1,356	1,399
Specific Provisions		
Opening balance	234	432
Acquired provisions, including fair value adjustments	-	6
Transfer from general provision for:		
New and increased provisioning	546	495
Less write-back of provisions no longer required	(51)	(84)
Net transfer	495	411
Adjustments for exchange rate fluctuations and other items	(11)	(17)
	718	832
Bad debts written off	(448)	(598)
Closing balance	270	234
Total Provisions for Impairment	1,626	1,633

Specific provisions for impairment comprise the following segments:

Provisions against loans and advances	270	233
Provisions for diminution	-	1
Total	270	234

% %

Provision Ratios

Specific provisions for impairment as % of gross impaired assets net of interest reserved	30.54	36.06
Total provisions for impairment as % of gross impaired assets net of interest reserved	183.9	251.6
General provisions as % of risk weighted assets	0.96	1.01

Impaired Asset Ratios

Gross impaired assets net of interest reserved as % of credit risk net of unearned income	0.40	0.32
Net impaired assets as % of:		
Risk weighted assets	0.44	0.30
Total shareholders' equity	2.92	2.09

Accounting Policy

Provisions for impairment are maintained at an amount adequate to cover anticipated credit related losses.

Specific provisions are established where full recovery of principal is considered doubtful. Specific provisions are made against:

- Individual facilities in the credit risk rated managed segment where exposure aggregates to \$250,000 or more;
- Each statistically managed portfolio to cover facilities that are not well secured and past due 180 days or more;
- Credit risk rated managed segment for exposures aggregating less than \$250,000 and 90 days past due or more and;
- Emerging credit risks identified in specific segments in the credit risk rated managed portfolio.

Provisions against segments are determined primarily by reference to historical ratios of write offs to balances in default.

General provisions for bad and doubtful debts are maintained to cover non identified probable losses and latent risks inherent in the overall portfolio of advances and other credit transactions. The provisions are determined having regard to the general risk profile of the credit portfolio, historical loss experience, economic conditions and a range of other criteria.

The amounts required to bring the provisions for impairment to their assessed levels are charged to profit. Provisions for impairment and movements therein are set out above.

Income Received and Forgone on Impaired Assets

Interest is only taken to profit on non-accrual loans when received in cash. Interest entitlement on non-accrual loans that is not received represents income forgone.

	Full Year Ended	
	30/06/02	30/06/01
	\$M	\$M
Impaired Assets		
Income received		
Current period	16	20
Prior period	14	31
Total income received	30	51
Income forgone	28	16
Movement in Impaired Asset Balances		
Gross impaired assets at period beginning	717	1,135
New and increased	1,069	707
Balances written off	(481)	(666)
Returned to performing or repaid	(362)	(459)
Gross impaired assets at period end	943	717

	30/06/02	30/06/01
	\$M	\$M
Loans accruing but past 90 days or more		
Housing loans	176	218
Other loans	73	90
Total	249	308

4. DEPOSITS AND OTHER PUBLIC BORROWINGS

	30/06/02	30/06/01
	\$M	\$M
Australia		
Certificates of deposit	15,832	12,927
Term deposits	28,991	28,102
On demand and short term deposits	63,844	54,601
Deposits not bearing interest	6,072	6,350
Securities sold under agreements to repurchase	753	435
Other	4	6
Total Australia	115,496	102,421
Overseas		
Certificates of deposit	2,258	2,294
Term deposits	9,035	7,849
On demand and short term deposits	5,185	4,130
Deposits not bearing interest	806	635
Agreements to repurchase	20	26
Total Overseas	17,304	14,934
Total Deposits and Other Public Borrowings	132,800	117,355

5. FINANCIAL REPORTING BY SEGMENTS

This note sets out segment reporting in accordance with statutory reporting requirements. Refer to the business analysis at the front of this report for detailed profit and loss accounts by segment.

Primary Segment Business Segments Financial Performance	Year Ended 30 June 2002			Group Total \$M
	Banking \$M	Life Insurance \$M	Funds Management \$M	
Interest income	10,455	-	-	10,455
Premium and related revenue	-	1,140	-	1,140
Other income	3,180	(100)	809	3,889
Appraisal value uplift				477
Total Revenue	13,635	1,040	809	15,961
Interest Expense	5,745	-	-	5,745
Segment result before tax, goodwill amortisation and appraisal value uplift	2,884	240	294	3,418
Income tax expense	(816)	(22)	(78)	(916)
Segment result after tax and before goodwill amortisation and appraisal value uplift	2,068	218	216	2,502
Outside equity interest	(1)	-	-	(1)
Segment result after tax and outside equity interest before goodwill amortisation and appraisal value uplift	2,067	218	216	2,501
Goodwill amortisation	-	-	-	(323)
Appraisal value uplift	-	-	-	477
Net profit attributable to shareholders of the Bank	2,067	218	216	2,655
Non-Cash Expenses				
Goodwill amortisation	-	-	-	(323)
Charge for bad and doubtful debts	(449)	-	-	(449)
Depreciation	(109)	(12)	(7)	(128)
Other	(43)	(1)	(2)	(46)
Financial Position				
Total Assets	211,130	35,637	2,881	249,648
Acquisition of Property, Plant & Equipment and Intangibles	147	4	13	164
Associate Investments	235	57	21	313
Total Liabilities	200,885	27,241	466	228,592

5. FINANCIAL REPORTING BY SEGMENTS (continued)

Year Ended 30 June 2001

Financial Performance	Year Ended 30 June 2001			GROUP Total \$M
	Banking \$M	Life Insurance \$M	Funds Management \$M	
Interest income	11,900	-	-	11,900
Premium and related revenue	-	1,073	-	1,073
Other income	2,485	1,698	701	4,884
Appraisal value uplift	-	-	-	474
Total Revenue	14,385	2,771	701	18,331
Interest Expense	7,426	-	-	7,426
Segment result before tax, goodwill amortisation and appraisal value uplift	2,512	514	243	3,269
Income tax expense	(705)	(194)	(94)	(993)
Segment result after tax and before goodwill amortisation and appraisal value uplift	1,807	320	149	2,276
Outside equity interest	(14)	-	-	(14)
Segment result after tax and outside equity interest before goodwill amortisation and appraisal value uplift	1,793	320	149	2,262
Goodwill amortisation	-	-	-	(338)
Appraisal value uplift	-	-	-	474
Net profit attributable to shareholders of the Bank	1,793	320	149	2,398
Non-Cash Expenses				
Goodwill amortisation	-	-	-	(338)
Charge for bad and doubtful debts	(385)	-	-	(385)
Depreciation	(108)	(37)	(5)	(150)
Other	(28)	(5)	(4)	(37)
Financial Position				
Total Assets	191,333	37,278	1,800	230,411
Acquisition of Property, Plant & Equipment and Intangibles	129	-	3	391 ⁽¹⁾
Associate Investments	249	128	23	400
Total Liabilities	179,733	30,329	501	210,563

⁽¹⁾ Includes intangible assets of \$259 million on acquisition of 25% interest in ASB Group.

Financial Reporting by Segments

Financial Reporting by Segments	30/06/02		30/06/01	
	\$M	%	\$M	%
GEOGRAPHICAL SEGMENTS				
Revenue				
Australia	12,651	79.3	15,265	83.3
New Zealand	1,591	10.0	1,499	8.2
Other Countries ⁽²⁾	1,719	10.7	1,567	8.5
	15,961	100.0	18,331	100.0
Net profit attributable to shareholders of the Bank				
Australia	2,569	96.8	2,228	92.9
New Zealand	178	6.7	159	6.6
Other Countries ⁽²⁾	(92)	(3.5)	11	0.5
	2,655	100.0	2,398	100.0
Assets				
Australia	208,673	83.6	196,918	85.5
New Zealand	24,579	9.8	20,208	8.8
Other Countries ⁽²⁾	16,396	6.6	13,285	5.7
	249,648	100.0	230,411	100.0
Acquisition of Property, Plant & Equipment and Intangibles				
Australia	134	81.7	360	92.1
New Zealand	26	15.9	29	7.4
Other Countries ⁽²⁾	4	2.4	2	0.5
	164	100.0	391	100.0

⁽²⁾ Other Countries are:

United Kingdom, United States of America, Japan, Singapore, Hong Kong, Grand Cayman, the Philippines, Fiji, Thailand, Malaysia, Indonesia, China and Vietnam. Thailand and Malaysia were sold during the year ended 30 June 2002.

6. AVERAGE INTEREST EARNING ASSETS AND LIABILITIES

The table lists the major categories of interest earning assets and interest bearing liabilities of the Group together with the respective interest earned or paid and the average interest rates for each of the full years ended 30 June 2002 and 30 June 2001, and the half years ending 30 June, 31 December 2001 and 30 June 2001. Averages used are predominantly daily averages.

The overseas component comprises overseas branches of the Bank and overseas domiciled controlled entities. Overseas intragroup borrowings have been adjusted into the interest spread and margin calculations to more appropriately reflect the overseas cost of funds. Non-accrual loans are included in Interest Earning Assets under loans, advances and other receivables.

Full Year Ended	30/06/02			30/06/01		
	Average Balance \$M	Interest \$M	Average Rate %	Average Balance \$M	Interest \$M	Average Rate %
Average Interest Earning Assets and Interest Income						
Cash and liquid assets						
Australia	4,290	138	3.2	2,428	107	4.4
Overseas	285	4	1.4	273	3	1.1
Receivables due from other financial institutions						
Australia	1,822	69	3.8	2,658	159	6.0
Overseas	2,663	96	3.6	1,595	121	7.6
Deposits with regulatory authorities						
Australia	-	-	n/a	-	-	n/a
Overseas	174	-	-	29	-	-
Trading securities						
Australia	5,138	248	4.8	5,616	387	6.9
Overseas	2,698	111	4.1	2,587	161	6.2
Investment securities						
Australia	3,774	211	5.6	3,244	242	7.5
Overseas	7,339	306	4.2	6,268	413	6.6
Loans, advances and other receivables						
Australia	123,006	7,984	6.5	118,917	8,983	7.6
Overseas	19,445	1,288	6.6	16,992	1,317	7.8
Other interest earning assets	-	-	n/a	-	7	n/a
Intragroup loans						
Australia	-	-	n/a	-	-	n/a
Overseas	3,232	65	2.0	3,198	191	6.0
Average interest earning assets and interest income including intragroup	173,866	10,520	6.1	163,805	12,091	7.4
Intragroup eliminations	(3,232)	(65)	2.0	(3,198)	(191)	6.0
Total average interest earning assets and interest income	170,634	10,455	6.1	160,607	11,900	7.4

Full Year Ended	30/06/02	30/06/01
	Average Balance \$M	Average Balance \$M
Non-Interest Earning Assets		
Bank acceptances		
Australia	11,965	12,074
Overseas	66	109
Life insurance investment assets		
Australia	26,853	26,580
Overseas	4,129	3,062
Property, plant and equipment		
Australia	681	1,024
Overseas	203	240
Other assets		
Australia	23,617	21,676
Overseas	3,411	1,835
Provisions for impairment		
Australia	(1,546)	(1,493)
Overseas	(143)	(84)
Total average non-interest earning assets	69,236	65,023
Total Average Assets	239,870	225,630
Percentage of total average assets applicable to overseas operations	18.1%	16.0%

Average Balance Sheet and Related Interest (continued)

Average Liabilities and Interest Expense

Full Year Ended

	30/06/02			30/06/01		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	\$M	\$M	%	\$M	\$M	%
Average Interest Bearing Liabilities and Loan Capital and Interest Expense						
Time Deposits						
Australia	41,283	1,901	4.6	42,226	2,519	6.0
Overseas	12,479	746	6.0	9,882	711	7.2
Savings Deposits						
Australia	32,078	412	1.3	27,835	603	2.2
Overseas	2,444	82	3.4	2,027	83	4.1
Other demand deposits						
Australia	29,517	1,037	3.5	23,813	1,064	4.5
Overseas	2,386	63	2.6	1,911	62	3.2
Payables due to other financial institutions						
Australia	2,043	65	3.2	1,271	65	5.1
Overseas	5,320	128	2.4	4,238	263	6.2
Debt issues						
Australia	14,578	800	5.5	17,130	1,099	6.4
Overseas	9,398	264	2.8	9,965	562	5.6
Loan capital						
Australia	5,491	227	4.1	5,564	367	6.6
Overseas	88	5	5.7	116	7	6.0
Other interest bearing liabilities	-	15	n/a	-	21	n/a
Intragroup borrowings						
Australia	3,232	65	2.0	3,198	191	6.0
Overseas	-	-	n/a	-	-	n/a
Average interest bearing liabilities and loan capital and interest expense including intragroup	160,337	5,810	3.6	149,176	7,617	5.1
Intragroup eliminations	(3,232)	(65)	2.0	(3,198)	(191)	6.0
Total average interest bearing liabilities and loan capital and interest expense	157,105	5,745	3.6	145,978	7,426	5.1

Average Balance Sheet and Related Interest (continued)

Average Liabilities and Interest Expense

Full Year Ended	30/06/02	30/06/01
	Average Balance	Average Balance
	\$M	\$M
Non-Interest Bearing Liabilities		
Deposits not bearing interest		
Australia	5,424	6,034
Overseas	705	608
Liability on acceptances		
Australia	11,965	12,077
Overseas	66	109
Life insurance policy liabilities		
Australia	23,092	23,584
Overseas	3,457	2,617
Other liabilities		
Australia	14,628	13,536
Overseas	3,026	2,890
Total average non-interest bearing liabilities	62,363	61,455
Total average liabilities and loan capital	219,468	207,433
Shareholders' equity	20,402	18,197
Total average liabilities, loan capital and shareholders' equity	239,870	225,630
Percentage of total average liabilities applicable to overseas operations	17.9%	16.6%

Half Year Ended	30/06/02			31/12/01			30/06/01		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Average Interest Earning Assets and interest income	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
Cash and liquid assets									
Australia	4,280	64	3.0	4,300	74	3.4	2,380	49	4.2
Overseas	305	1	0.7	264	3	2.3	303	3	2.0
Receivables due from other financial institutions									
Australia	2,015	43	4.3	1,631	26	3.2	2,543	71	5.6
Overseas	2,958	53	3.6	2,373	43	3.6	1,724	67	7.8
Deposits with regulatory authorities									
Australia	-	-	n/a	-	-	n/a	-	-	n/a
Overseas	235	-	-	114	-	-	39	-	-
Trading securities									
Australia	4,906	109	4.5	5,368	139	5.1	6,427	231	7.2
Overseas	2,562	47	3.7	2,831	64	4.5	2,785	80	5.8
Investment securities									
Australia	4,022	101	5.1	3,530	110	6.2	2,882	105	7.3
Overseas	7,405	124	3.4	7,274	182	5.0	6,553	203	6.2
Loans, advances and other receivables									
Australia	124,419	3,909	6.3	121,680	4,075	6.6	119,720	4,384	7.4
Overseas	19,977	638	6.4	18,857	650	6.8	18,007	678	7.6
Other interest earning assets	-	(3)	n/a	-	3	n/a	-	5	n/a
Intragroup loans									
Australia	-	-	n/a	-	-	n/a	-	-	n/a
Overseas	3,361	25	1.5	3,106	40	2.6	3,209	82	5.2
Average interest earning assets and interest income including intragroup	176,445	5,111	5.8	171,328	5,409	6.3	166,572	5,958	7.2
Intragroup eliminations	(3,361)	(25)	1.5	(3,106)	(40)	2.6	(3,209)	(82)	5.2
Total average interest earning assets and interest income	173,084	5,086	5.9	168,222	5,369	6.3	163,363	5,876	7.3

Half Year Ended	30/06/02 Average Balance \$M	31/12/01 Average Balance \$M	30/06/01 Average Balance \$M
Non-Interest Earning Assets			
Bank acceptances			
Australia	12,187	11,748	12,361
Overseas	79	53	137
Life insurance investment assets			
Australia	26,842	26,865	26,825
Overseas	4,154	4,104	4,104
Property, plant and equipment			
Australia	662	699	911
Overseas	189	217	238
Other assets			
Australia	22,710	24,548	22,899
Overseas	3,053	3,723	2,654
Provisions for impairment			
Australia	(1,541)	(1,550)	(1,634)
Overseas	(148)	(139)	(78)
Total average non-interest earning assets	68,187	70,268	68,417
Total Average Assets	241,271	238,490	231,780
Percentage of total average assets applicable to overseas operations	18.3%	17.9%	17.1%

Half Year Ended	30/06/02		31/12/01			30/06/01			
	Average	Interest	Average	Average	Interest	Average	Average	Interest	Average
Average Interest Bearing Liabilities and Loan Capital and Interest Expense	Balance		Rate	Balance		Rate	Balance		Rate
	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
Time Deposits									
Australia	40,465	887	4.4	42,107	1,014	4.8	41,475	1,209	5.9
Overseas	13,955	379	5.5	11,017	367	6.6	10,447	360	6.9
Savings Deposits									
Australia	32,894	185	1.1	31,277	227	1.4	27,432	281	2.1
Overseas	2,535	40	3.2	2,353	42	3.5	2,173	43	4.0
Other demand deposits									
Australia	30,610	513	3.4	28,442	524	3.7	25,501	509	4.0
Overseas	2,486	31	2.5	2,287	32	2.8	2,046	34	3.4
Payables due to other financial institutions									
Australia	1,910	23	2.4	2,174	42	3.8	1,594	40	5.0
Overseas	5,555	55	2.0	5,079	73	2.8	4,504	125	5.6
Debt issues									
Australia	15,055	415	5.6	14,108	385	5.4	17,259	567	6.6
Overseas	8,629	96	2.2	10,155	168	3.3	10,280	266	5.2
Loan capital									
Australia	5,456	99	3.7	5,525	128	4.6	5,732	176	6.2
Overseas	86	1	2.3	90	4	8.8	89	3	6.8
Other interest bearing liabilities	-	1	n/a	-	14	n/a	-	10	n/a
Intragroup borrowings									
Australia	3,361	25	1.5	3,106	40	2.6	3,209	82	5.2
Overseas	-	-	n/a	-	-	n/a	-	-	n/a
Average interest bearing liabilities and loan capital and interest expense including intragroup	162,997	2,750	3.4	157,720	3,060	3.8	151,741	3,705	4.9
Intragroup eliminations	(3,361)	(25)	1.5	(3,106)	(40)	2.6	(3,209)	(82)	5.2
Total average interest bearing liabilities and loan capital and interest expense	159,636	2,725	3.4	154,614	3,020	3.9	148,532	3,623	4.9

Half Year Ended	30/06/02 Average Balance \$M	31/12/01 Average Balance \$M	30/06/01 Average Balance \$M
Non-Interest Bearing Liabilities			
Deposits not bearing interest			
Australia	5,029	5,813	6,308
Overseas	745	665	634
Liability on acceptances			
Australia	12,187	11,748	12,367
Overseas	79	53	137
Life insurance policy liabilities			
Australia	22,875	23,305	23,290
Overseas	3,539	3,376	3,421
Other liabilities			
Australia	13,337	15,907	14,294
Overseas	3,214	2,831	4,131
Total average non-interest bearing liabilities	61,005	63,698	64,584
Total average liabilities and loan capital	220,641	218,312	213,116
Shareholders' equity	20,630	20,178	18,664
Total average liabilities, loan capital and shareholders' equity	241,271	238,490	231,780
Percentage of total average liabilities applicable to overseas operations	18.5%	17.4%	17.8%

7. INTEREST RATE AND VOLUME ANALYSIS OF FULL YEAR AND HALF YEAR RESULTS

Full Year Ended	30/06/02 vs 30/06/01			Proforma 30/06/01 vs 30/06/00		
	Changes due to			Changes due to		
	Volume \$M	Rate \$M	Total \$M	Volume \$M	Rate \$M	Total \$M
Interest Earning Assets						
Cash and liquid assets						
Australia	71	(40)	31	21	4	25
Overseas	-	1	1	1	2	3
Receivables due from other financial institutions						
Australia	(41)	(49)	(90)	39	2	41
Overseas	60	(85)	(25)	20	22	41
Trading securities						
Australia	(28)	(111)	(139)	(48)	70	22
Overseas	6	(56)	(50)	37	25	62
Investment securities						
Australia	35	(66)	(31)	(73)	44	(29)
Overseas	58	(165)	(107)	59	28	88
Loans, advances and other receivables						
Australia	287	(1,286)	(999)	528	407	935
Overseas	176	(205)	(29)	213	122	335
Other interest earning assets	-	(7)	(7)	-	3	3
Intragroup loans						
Australia	-	-	-	-	-	-
Overseas	1	(127)	(126)	22	1	24
Change in interest income including intragroup	656	(2,227)	(1,571)	850	700	1,550
Intragroup eliminations	(1)	127	126	(22)	(1)	(24)
Change in interest income	679	(2,124)	(1,445)	826	700	1,526
Interest Bearing Liabilities and Loan Capital						
Time Deposits						
Australia	(50)	(568)	(618)	(130)	232	102
Overseas	171	(136)	35	78	152	229
Savings Deposits						
Australia	73	(264)	(191)	(2)	65	62
Overseas	16	(17)	(1)	-	17	17
Other demand deposits						
Australia	228	(255)	(27)	146	94	239
Overseas	14	(13)	1	16	3	18
Payables due to other financial institutions						
Australia	32	(32)	-	13	(7)	6
Overseas	47	(182)	(135)	33	(10)	23
Debt Issues						
Australia	(152)	(147)	(299)	157	52	209
Overseas	(24)	(274)	(298)	130	3	133
Loan Capital						
Australia	(4)	(136)	(140)	115	22	137
Overseas	(2)	-	(2)	4	(3)	1
Other interest bearing liabilities	-	(6)	(6)	-	21	21
Intragroup borrowings						
Australia	1	(127)	(126)	22	1	24
Overseas	-	-	-	-	-	-
Change in interest expense including intragroup	503	(2,310)	(1,807)	513	708	1,221
Intragroup eliminations	(1)	127	126	(22)	(1)	(24)
Change in interest expense	486	(2,167)	(1,681)	492	705	1,197
Change in net interest income	278	(42)	236	334	(5)	329
Change due to Variation in Time Periods			-			(11)

These Volume and Rate Analyses are for half year periods. The calculations are based on balances over the half year.

The volume and rate variances for both total interest earning assets and liabilities have been calculated separately (rather than being the sum of the individual categories). The variation in time periods allows for the different number of days in the respective half years.

Half Year Ended

	30/06/02 vs 30/06/01			30/06/02 vs 31/12/01		
	Volume \$M	Rate \$M	Total \$M	Volume \$M	Rate \$M	Total \$M
Interest Earning Assets						
Cash and liquid assets						
Australia	34	(19)	15	(1)	(8)	(9)
Overseas	-	(2)	(2)	-	(2)	(2)
Receivables due from other financial institutions						
Australia	(13)	(15)	(28)	7	10	17
Overseas	35	(49)	(14)	11	-	11
Trading securities						
Australia	(44)	(78)	(122)	(11)	(17)	(28)
Overseas	(5)	(28)	(33)	(6)	(10)	(16)
Investment securities						
Australia	35	(39)	(4)	14	(21)	(7)
Overseas	20	(99)	(79)	3	(58)	(55)
Loans, advances and other receivables						
Australia	160	(635)	(475)	88	(188)	(100)
Overseas	69	(109)	(40)	37	(38)	(1)
Other interest earning assets	-	(8)	(8)	-	(6)	(6)
Intragroup loans						
Australia	-	-	-	-	-	-
Overseas	3	(60)	(57)	3	(17)	(14)
Change in interest income including intragroup	311	(1,158)	(847)	148	(358)	(210)
Intragroup eliminations	(3)	60	57	(3)	17	14
Change in interest income	318	(1,108)	(790)	148	(343)	(196)
Interest Bearing Liabilities and Loan Capital						
Time Deposits						
Australia	(26)	(296)	(322)	(37)	(73)	(110)
Overseas	108	(89)	19	88	(70)	18
Savings Deposits						
Australia	43	(139)	(96)	11	(49)	(38)
Overseas	6	(9)	(3)	3	(4)	(1)
Other demand deposits						
Australia	94	(90)	4	38	(40)	(2)
Overseas	6	(9)	(3)	3	(3)	-
Payables due to other financial institutions						
Australia	6	(23)	(17)	(4)	(14)	(18)
Overseas	20	(90)	(70)	6	(23)	(17)
Debt Issues						
Australia	(67)	(85)	(152)	25	11	36
Overseas	(31)	(139)	(170)	(21)	(48)	(69)
Loan Capital						
Australia	(7)	(70)	(77)	(1)	(26)	(27)
Overseas	-	(2)	(2)	-	(3)	(3)
Other interest bearing liabilities	-	(9)	(9)	-	(13)	(13)
Intragroup borrowings						
Australia	3	(60)	(57)	3	(17)	(14)
Overseas	-	-	-	-	-	-
Change in interest expense including intragroup	238	(1,193)	(955)	98	(359)	(261)
Intragroup eliminations	(3)	60	57	(3)	17	14
Change in interest expense	230	(1,128)	(898)	91	(337)	(244)
Change in net interest income	133	(25)	108	66	(16)	50
Change due to Variation in Time Periods			-			(38)

8. INTEGRATED RISK MANAGEMENT

(Excludes Life Insurance and Funds Management)

The major categories of risk actively managed by the Bank include credit risk, liquidity and funding risk, market risk and other operational risks. The 2001 Annual Report pages 31 to 33, Integrated Risk Management, details the major risks managed by a diversified financial institution.

Credit Risk

The Group uses a portfolio approach for the management of its credit risk. A key element is a well diversified portfolio. The Group is using various portfolio management tools to assist in diversifying the credit portfolio.

The commercial portfolio remains well rated regardless of a small number of large impaired assets. The level of exposure within Australia to the commercial portfolio and the home lending segment further supports the strength of the portfolio, with Australia expected to have a comparatively quick recovery on the international stage.

Industry	30/06/02	31/12/01	30/06/01
	%	%	%
Accommodation, Cafes and Restaurants	1.5	1.4	1.4
Agriculture, Forestry and Fishing	3.1	2.8	2.9
Communication Services	0.8	0.7	0.7
Construction	0.9	1.4	1.6
Cultural and Recreational Services	0.8	0.6	0.9
Electricity, Gas and Water Supply	1.7	1.8	1.6
Finance and Insurance	10.9	11.2	10.3
Government Administration and Defence	5.0	4.8	4.4
Health and Community Services	1.5	1.5	1.6
Individuals	5.6	3.5	3.8
Manufacturing	5.2	5.3	5.9
Mining	1.1	1.1	1.1
Personal and Other Services	0.6	0.6	0.5
Property and Business Services	6.5	8.0	8.7
Retail Trade	2.4	2.1	2.1
Transport and Storage	3.2	2.7	2.9
Wholesale Trade	1.6	1.4	1.8
Consumer	47.6	49.1	47.8
Total	100.0	100.0	100.0

The Group is traditionally a large home loan provider in both Australia and New Zealand (see "Consumer" above), where historically losses have been less than 0.03% of the portfolio in most years.

Region	30/06/02	31/12/01	30/06/01
	%	%	%
Australia	86.9	84.7	87.9
New Zealand	8.3	8.5	7.2
Europe	1.8	3.0	2.0
Americas	1.8	2.0	1.5
Asia	1.1	1.7	1.3
Other	0.1	0.1	0.1
Total	100.0	100.0	100.0

The Group has the bulk of the exposure concentrated in Australia and New Zealand.

Commercial Portfolio Quality	30/06/02	31/12/01	30/06/01
	%	%	%
AAA/AA	27	29	27
A	19	20	21
BBB	15	15	15
Other	39	36	37
Total	100	100	100

As % of commercial portfolio exposure (including finance and insurances) which has been individually risk rated, the Group has over 60% of commercial exposures at investment grade quality.

Consumer Portfolio Quality	30/06/02	31/12/01	30/06/01
Housing loans accruing but past 90 days or more \$M	176	168	218
Housing loan balances \$M ⁽¹⁾	85,839	79,745	73,511
Arrears rate %	0.21	0.21	0.30

⁽¹⁾ Housing loan balances net of securitisation and includes home equity and similar facilities.

Interest Rate Risk in the Balance Sheet is discussed within Note 39 of the 2001 Annual Report.

Next 12 months' Earnings

Over the year to 30 June 2002 the potential impact on net interest earnings of a 1% parallel rate shock and the expected change in price of assets and liabilities held for purposes other than trading is as follows:

(expressed as a % of expected next 12 months' earnings)	2002 %	2001 %
Average monthly exposure	1.3	1.8
High month exposure	1.8	2.4
Low month exposure	0.7	0.9

Economic Value

The figures in the following table represent the net present value of the expected change in future earnings in all future periods for the remaining term of existing assets and liabilities, where repricing dates do not match, held for purposes other than trading.

	2002 \$M	2001 \$M
Exposure as at period end	16	42
Average monthly exposure	29	23
High month exposure	59	42
Low month exposure	9	11

Foreign Exchange Risk in the Balance Sheet is discussed within Note 39 of the 2001 Annual Report.

An adverse movement of 10% in the applicable AUD foreign exchange rate would cause the Bank's capital ratio to deteriorate by less than 0.3% (0.3% for the year to 30 June 2001).

Value at Risk (VaR) within Financial Markets Trading is discussed in the 2001 Annual Report.

	Average VaR During June 2002 Half \$M	Average VaR During December 2001 Half \$M	Average VaR During June 2001 Half \$M	Average VaR During December 2000 Half \$M
Group (excluding ASB Bank)				
Interest rate risk	3.23	2.60	2.21	2.30
Exchange rate risk	2.07	1.54	1.03	0.64
Implied volatility risk	0.59	0.48	0.39	0.32
Equities risk	0.42	0.47	0.42	0.42
Commodities risk	0.31	0.48	0.34	0.33
Prepayment risk	0.21	0.32	0.44	0.38
ASB Bank	0.17	0.14	0.17	0.21
Diversification benefit	(2.39)	(2.45)	(1.99)	(1.74)
Total	4.61	3.58	3.01	2.86

Withdrawal of Terrorism Insurance Cover

On renewal of the Group's insurance policies in the first half, insurers imposed terrorism exclusion clauses in various policies.

The Group, through the Australian Banker's Association, sought Federal Government participation in achieving a national solution. On 21 May 2002 the Treasurer announced that the Federal Government is prepared to provide remainder insurance for terrorist risk cover, possibly after private sector pooling. The Government is currently undertaking further consultation with key industry stakeholders, including the Group, on the shape of this government assistance.

The Group is also constantly reviewing the insurance market to access cover in the event that a viable market solution becomes available.

9. CAPITAL ADEQUACY

Risk Weighted Capital Ratios	30/06/02 %	30/06/01 %
Tier one	6.78	6.51
Tier two	4.28	4.18
Less deductions	(1.26)	(1.53)
Total Capital	9.80	9.16

	30/06/02 \$M	30/06/01 \$M	30/06/02 vs 30/06/01 %
Tier One Capital			
Shareholders' Equity	21,056	19,848	6.1
Eligible Loan Capital	415	462	(10.2)
Total Shareholders' Equity and Loan Capital	21,471	20,310	5.7
Add back Foreign currency translation reserve related to non-consolidated subsidiaries	90	-	n/a
Less Asset revaluation reserve	(4)	(5)	(20.0)
Less Goodwill	(5,391)	(5,716)	(5.7)
Less Intangible component of investment in non-consolidated subsidiaries	(4,588)	(4,116)	11.5
Less Outside equity interest in entities controlled by non-consolidated subsidiaries	(2,017)	(1,458)	38.3
Total Tier One Capital	9,561	9,015	6.1
Tier Two Capital			
Asset revaluation reserve	4	5	(20.0)
General provision for bad and doubtful debts ⁽¹⁾	1,351	1,390	(2.8)
FITB related to general provision	(392)	(436)	(10.1)
Upper tier 2 note and bond issues	297	317	(6.3)
Lower tier 2 note and bond issues	4,934	5,348	(7.7)
Less Lower tier 2 adjustment to 50% of tier 1 capital	(154)	(840)	(81.7)
Total Tier Two Capital	6,040	5,784	4.4
Tier One and Tier Two Capital	15,601	14,799	5.4
Less Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier 1)	(1,741)	(2,005)	(13.2)
Less Other deductions	(40)	(114)	(64.9)
Capital Base	13,820	12,680	9.0

⁽¹⁾ Excludes general provision for bad and doubtful debts relating to investments in non-consolidated subsidiaries.

	Face Value		Risk Weights	Risk Weighted Balance	
	2002 \$M	2001 \$M		2002 \$M	2001 \$M
Risk-weighted assets					
On balance sheet assets					
Cash, claims on Reserve Bank, short term claims on Australian Commonwealth and State Government and Territories, and other zero-weighted assets	22,315	16,604	0%	-	-
Claims on OECD banks and local governments	13,401	10,927	20%	2,680	2,185
Advances secured by residential property	86,378	77,909	50%	43,189	38,954
All other assets	77,474	77,028	100%	77,474	77,028
Total on balance sheet assets - credit risk	199,568	182,468		123,343	118,167
Total off balance sheet exposures - credit risk ^{(1),(2)}				16,516	19,572
Risk weighted assets - market risk				1,190	644
Total risk weighted assets				141,049	138,383

⁽¹⁾ The reduction in off balance sheet exposures was achieved by improved classification of assets by risk weight, principally through identification of additional eligible security and by more accurate classification of counterparties.

⁽²⁾ Off balance sheet exposures secured by residential property account for \$13.0 billion of off balance sheet credit equivalent assets (\$6.5 billion of off balance sheet risk weighted assets).

For an analysis of the movements in the capital ratios see page 31.

10. CREDIT RATING

Debt issues not guaranteed by the Commonwealth of Australia

	Short-term	Long-term
Standard & Poor's Corporation	A-1+	AA-
Moody's Investors Service, Inc.	P-1	Aa3
Fitch, Inc	F1+	AA
Moody's Bank Financial Strength Rating		B
Fitch, Inc Individual Rating		A/B

11. SHARE CAPITAL AND RESERVES

	Shares Issued	\$M
Ordinary Share Capital		
Opening balance 1 July 2001	1,244,015,455	12,455
Exercise of executive options ⁽¹⁾	2,052,500	39
Employee Share Acquisition Plan Issues	899,368	-
DRP 2000/2001 final dividend fully paid ordinary shares @ \$28.79	5,954,040	171
Buy Back for DRP: 2001/02 Interim Dividend	(4,951,275)	(158)
DRP 2000/2001 Interim Dividend	4,951,275	158
Closing balance 30 June 2002	1,252,921,363	12,665
Preference Share Capital		
Opening balance 1 July 2001	3,500,000	687
Closing balance 30 June 2002	3,500,000	687
Retained Profits		
Opening balance 1 July 2001		1,160
Net profit for the year		2,655
Provisions for dividends		(1,913)
Appropriations to reserves (net)		(450)
Closing balance 30 June 2002		1,452
Reserves		
Opening balance 1 July 2001		4,091
Transfer of DRP Reserve to Share Capital		(168)
Appropriation from profits (net)		450
Movement in Foreign Currency Translation Reserve		(146)
Movement in Asset Revelation Reserve		(1)
Closing balance 30 June 2002		4,226

⁽¹⁾ Executive options are not currently recorded as an expense by the Group. Based on the current deliberations of the International Accounting Standards Board on recognition of an expense for equity based compensation, the Group would be required to recognise an expense for the fair value of options issued rather than exercised during the year. During the current year 3,007,000 options were issued with a fair value of \$2.01. This would result in an expense of \$6.0 million being recorded by the Group.

Dividend Franking Account

After fully franking the dividend to be paid in respect of the year ended 30 June 2002 the amount of the franking credits available as at 30 June 2002 to frank dividends for subsequent financial years is \$400.2 million (30 June 2001 : Nil). This figure is based on the combined franking accounts of the Group at 30 June 2002, which have been adjusted for franking credits that will arise from the payment of income tax payable on profits of the year ended 30 June 2002, franking debits that will arise from the payment of dividends proposed for the half year and franking credits that the Group may be prevented from distributing in subsequent financial periods. The Bank expects that future tax payments will generate sufficient franking credits for the Bank to be able to continue to fully frank future dividend payments. Dividend payments on or after 1 July 2002 will be franked at the 30% tax rate. These calculations have been based on the taxation law as at 30 June 2002.

Dividend Reinvestment Plan

The Dividend Reinvestment Plan is capped at 10,000 shares per shareholder.

Record Date

The register closes for determination of dividend entitlement and for participation in the Dividend Reinvestment Plan at 5:00pm on 30 August 2002 at ASX Perpetual Registrars Limited, Locked Bag A14, Sydney South, 1232.

Ex Dividend Date

The ex dividend date is 26 August 2002.

12. DEFINITIONS

Item	Description
Appraisal Value	The embedded value plus estimated value of profits from future business.
Cash Earnings	Represents profit from ordinary activities after tax and outside equity interest before appraisal value uplift and goodwill amortisation.
Dividend Payout Ratio	Dividends paid on ordinary shares, divided by earnings.
DRP	Dividend Reinvestment Plan.
DRP Participation Rate	The percentage of total issued capital participating in the Dividend Reinvestment Plan.
Earnings Per Share	Calculated in accordance with the revised AASB 1027: Earnings per Share effective 1 July 2001.
Other Countries	United Kingdom, United States of America, Japan, Singapore, Hong Kong, Grand Cayman, the Philippines, Fiji, Thailand, Indonesia, Malaysia, China and Vietnam.
Return on Average Shareholders' Equity	Based on profit from ordinary activities after tax and outside equity interests applied to average shareholders equity.
Return on Average Total Assets	Based on profit from ordinary activities after tax and outside equity interests. Averages are based on beginning and end of period balances.
Total Assets	Includes the gross amount of trading derivative contract revaluations.
Underlying profit	Represents profit from ordinary activities before tax, charge for bad and doubtful debts and goodwill amortisation.

13. EXPENSES

Group Expenses	30/06/02 \$M	30/06/01 \$M
Staff Expenses		
Salaries and wages	2,079	2,046
Superannuation contributions	11	12
Provision for long service leave	36	47
Provisions for other employee entitlements	8	(8)
Payroll tax	92	99
Fringe benefits tax	32	48
Other staff expenses	132	116
Total Staff Expenses	2,390	2,360
Occupancy and Equipment Expenses		
Operating lease rentals	324	329
Depreciation		
Buildings	26	29
Leasehold improvements	47	45
Equipment	55	76
Repairs and maintenance	56	60
Other	70	65
Total Occupancy and Equipment Expenses	578	604
Information Technology Services		
Projects and development	233	216
Data processing	275	256
Desktop	155	145
Communications	175	171
Total Information Technology Services	838	788
Other Expenses		
Postage	111	108
Stationery	104	104
Fees and commissions	609	524
Advertising and marketing	256	252
Other	315	430
Total Other Expenses	1,395	1,418
Total Operating Expenses	5,201	5,170

Some prior period comparatives have been amended to reflect current classification of expenses.

14. LIFE INSURANCE BUSINESS

The following information, in accordance with AASB 1038, is provided to disclose life insurance business transactions contained in the Group financial statements and the underlying methods and assumptions used in their calculation.

Summarised Profit and Loss Statement	30/06/02 \$M	30/06/01 \$M
Premium and related revenue ⁽¹⁾	1,332	1,237
Outward reinsurance premiums expense	(192)	(164)
Claims expense ⁽¹⁾	(447)	(466)
Reinsurance recoveries	89	141
Investment revenue (excluding investments in subsidiaries)		
Equity securities	(1,057)	552
Debt securities	878	902
Property	184	277
Other	(105)	(33)
Life insurance policy liabilities expense ⁽¹⁾	315	(1,178)
Margin on services operating income	997	1,268
Change in excess of net market values over net assets of life insurance controlled entities	477	474
Life insurance operating income	1,474	1,742
Administration expense	(757)	(754)
Operating profit before income tax	717	988
Income tax attributable to operating profit	(22)	(194)
Operating profit after income tax	695	794
Outside equity interest in operating profit after income tax	-	-
Net Profit after income tax	695	794

Sources of life insurance operating profit

The Margin on Services operating profit after income tax is represented by:

Emergence of planned profit margins	234	257
Difference between actual and planned experience	(37)	(63)
Movement in excess of net market value over net assets of controlled entities	477	474
Reversal of previously recognised losses or loss recognition on groups of related products	(9)	(2)
Investment earnings on assets in excess of policyholder liabilities	33	126
Other	(3)	2
Operating Profit after income tax	695	794

An analysis of this financial result is contained in the Life Insurance – Business Analysis section of this report.

⁽¹⁾ For the above profit and loss presentation, premiums and claims are split between expense and capital component on an estimation basis.

Carrying Values of Life Insurance and Funds Management Business

The following table sets out the components of the carrying values of the Group's life insurance and funds management businesses, together with the key actuarial assumptions that have been used. These are Directors' valuations based on appraisal values using a range of economic and business assumptions determined by management which are reviewed by independent actuaries Trowbridge Consulting.

Analysis of Movement since 30 June 2001	Funds Management		Life Insurance			\$M
	\$M	Australia		New Zealand	Asia ⁽⁵⁾	
		Investment	Risk			
Profits	216	148	88	28	(46)	434
Capital Movements	85	-	74	68	131	358
Dividends paid	(325)	(179)	(97)	(24)	-	(625)
Disposals of Business ⁽¹⁾	-	-	-	-	(61)	(61)
FX Movements	(11)	-	-	26	(64)	(49)
Change in Shareholders NTA	(35)	(31)	65	98	(40)	57
Value Transfer ⁽³⁾	1,142	(1,142)	-	-	-	-
Acquired excess ⁽²⁾	58	-	-	-	-	58
Disposals of Business	-	-	-	-	(15)	(15)
Transfer of CFS Property ⁽²⁾	147	-	-	-	-	147
Underlying Appraisal Value Uplift	234	48	83	54	(89)	330
Increase to 30 June 2002	1,546	(1,125)	148	152	(144)	577

Shareholders' Net Tangible Assets	Funds Management		Life Insurance			Total
	\$M	Australia		New Zealand	Asia	
		Investment	Risk			
30 June 2001 balance	269	499	1,144	236	719	2,867
Profits	216	148	88	28	(46)	434
Net capital movements	(240)	(179)	(23)	44	131	(267)
Disposals of business ⁽¹⁾	-	-	-	-	(61)	(61)
Foreign Exchange Movements	(11)	-	-	26	(64)	(49)
30 June 2002 balance	234	468	1,209	334	679	2,924

Value in Force Business	Funds Management		Life Insurance			Total
	\$M	Australia		New Zealand	Asia	
		Investment	Risk			
30 June 2001 balance	618	565	141	135	101	1,560
Disposals of business ⁽¹⁾	-	-	-	-	(10)	(10)
Value transfer/acquired access ⁽²⁾	205	-	-	-	-	205
Uplift	43	(210)	37	44	(51)	(137)
30 June 2002 balance	866	355	178	179	40	1,618

Value Future New Business	Funds Management		Life Insurance			Total
	\$M	Australia		New Zealand	Asia	
		Investment	Risk			
30 June 2001 balance	2,402	809	(23)	265	123	3,576
Disposals of business ⁽¹⁾	-	-	-	-	(5)	(5)
Value transfer ⁽³⁾	1,142	(1,142)	-	-	-	-
Uplift	191	258	46	10	(38)	467
30 June 2002 balance	3,735	(75)	23	275	80	4,038

Carrying Value at 30 June 2002	Funds Management		Life Insurance			Total
	\$M	Australia		New Zealand	Asia	
		Investment	Risk			
Shareholders' net tangible assets	234	468	1,209	334	679	2,924
Value in force business	866	355	178	179	40	1,618
Embedded value	1,100	823	1,387	513	719	4,542
Value future new business	3,735	(75) ⁽⁴⁾	23	275	80	4,038
Carrying Value	4,835	748	1,410	788	799	8,580

(1) Represents the sale of the Thailand and Malaysian life insurance business.

(2) Represents excess acquired on the purchase of management rights for Kiwi Income Properties Trust and the transfer into the market value environment of Colonial First State Properties.

(3) Represents the value transfer between the life insurance companies and the funds management businesses arising from decisions to cease selling certain life products in preference for Colonial First State products and the impact of introducing Colonial First State products to the Group's proprietary distribution network.

(4) Life insurance investment business comprises mainly corporate unit linked and superannuation business. The negative value of \$75m in the Australian Life Investment future new business represents products that are profitable but are not achieving returns greater than the discount rate. The lower return reflects a higher cost structure for these products that will be addressed as part of the Group's cost restructure.

(5) The Asian businesses are not in a market value environment.

The following table reconciles the carrying values of the life and funds management businesses to the value of investments in non-consolidated subsidiaries as shown in the capital adequacy calculation.

Reconciliation of the Components of the Carrying Value to the Value of Investments in Non-Consolidated Subsidiaries

	31/06/02 \$M	30/6/01 \$M
<i>Intangible component of investment in non-consolidated subsidiaries deducted from Tier 1 capital comprises:</i>		
Value future new business	4,038	3,576
Value of self-generated in force business	550	540
	<u>4,588</u>	<u>4,116</u>
<i>Investment in non-consolidated subsidiaries deducted from Total Capital comprises:</i>		
Shareholders' NTA in life and funds management businesses	2,924	2,867
Shareholders' NTA in other non-consolidated subsidiaries	149	41
Debt recognised as capital per APRA regulations	7	96
Value of acquired in force business ⁽¹⁾	1,068	1,020
Less non-recourse debt	(2,373)	(2,019)
Other	(34)	-
	<u>1,741</u>	<u>2,005</u>

⁽¹⁾ The increase in the value of acquired in force business principally relates to the acquisition of management rights for Kiwi Income Properties Trust.

Key Assumptions Used in Appraisal Values

The following Key Assumptions have been used in determining the appraisal values. Other actuarial assumptions used in the valuation are described in the section Actuarial Methods and Assumptions.

	New Business Multiplier ⁽¹⁾	Risk Discount Rate %	Value of Franking Credits %
As at 30 June 2002			
Life insurance entities			
<i>Australia</i>	9	11.5	70
<i>New Zealand</i>	8	12.0	-
<i>Asia</i>			
- Hong Kong	10	HKD13.0 ⁽²⁾ USD12.0	-
- Other	various	various	-
Funds management entities			
<i>Australia</i>	n/a	13.0	70
As at 30 June 2001			
Life insurance entities			
<i>Australia</i>	9	11.5	70
<i>New Zealand</i>	9	12.0	-
<i>Asia</i>			
- Hong Kong	9	HKD 13.5 ⁽²⁾ USD 12.5	-
- Other	various	various	-
Funds management entities			
<i>Australia</i>	n/a	12.5	70

⁽¹⁾ Changes in multipliers reflect changed risk discount rates, changes to business mix and changes to views on future new business growth.

⁽²⁾ These are the risk discount rates for Hong Kong dollar business and US dollar business.

Policy Liabilities

Appropriately qualified actuaries have been appointed in respect of each life insurance business and they have reviewed and satisfied themselves as to the accuracy of the policy liabilities included in this financial report, including compliance with the regulations of the Life Insurance Act (Life Act) 1995 where appropriate. Details are set out in the various statutory returns of these life insurance businesses.

	30/06/02 \$M	30/06/01 \$M
Components of policy liabilities:		
Future policy benefits ⁽¹⁾	29,164	29,727
Future bonuses	1,493	1,583
Future expenses	2,259	2,209
Future profit margins	1,007	1,224
Future charges for acquisition expenses	(413)	(648)
Balance of future premiums	(7,666)	(7,112)
Provisions for bonuses not allocated to participating policyholders	73	46
Total policy liabilities	25,917	27,029

⁽¹⁾ Including bonuses credited to policyholders in prior years.

Taxation

Taxation has been allowed for in the determination of policy liabilities in accordance with the relevant legislation applicable in each territory.

On 1 July 2000 a new tax regime for life insurance companies commenced in Australia. The primary effect of this regime is to tax profits that had previously not been subject to taxation. Allowance has been made in the appraisal values and policy liabilities of the life insurance businesses for the impact of the new tax requirements.

Actuarial Methods and Assumptions

Policy liabilities have been calculated in accordance with the Margin on Services (MoS) methodology as set out in Actuarial Standard 1.03 – Valuation Standard ('AS1.03') issued by the Life Insurance Actuarial Standards Board ('LIASB'). The principal methods and profit carriers used for particular product groups are as follows:

Product Type	Method	Profit Carrier
Individual		
Conventional	Projection	Bonuses / dividends or expected claim payments
Investment account	Projection	Bonuses or asset charges
Investment linked	Projection	Asset charge
	Accumulation	Not applicable
Lump sum risk	Projection	Premiums/claims
Income stream risk	Projection	Expected claim payments
Immediate annuities	Projection	Bonuses or annuity payment
Group		
Investment account	Projection	Bonuses or asset charges
Investment linked	Projection	Asset charge
Lump sum risk	Projection	Claims
	Accumulation	Premiums (implied)
Income stream risk	Projection	Expected claim payments

The 'Projection Method' measures the present values of estimated future policy cash flows to calculate policy liabilities. The policy cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments.

The 'Accumulation Method' measures the accumulation of amounts invested by policyholders plus investment earnings less fees specified in the policy to calculate policy liabilities. Deferred acquisition costs are offset against this liability.

Bonuses are amounts added, at the discretion of the life insurer, to the benefits currently payable under Participating Business. Under the Life Act, bonuses are a distribution to policyholders of profits and may take a number of forms including reversionary bonuses, interest credits and capital growth bonuses (payable on the termination of the policy).

Actuarial Assumptions

Set out below is a summary of the material assumptions used in the calculation of policy liabilities. These assumptions are also used in the determination of appraisal values.

Discount Rates

These are the rates used to discount future cash flows to determine their net present value in the policy liabilities. The discount rates are determined with reference to the expected earnings rate of the assets that support the policy liabilities adjusted for taxation where relevant. The following table shows the applicable rates for the major classes of business in Australia and New Zealand. The changes relate to changes in long term earnings rates, asset mix and reflect the new tax regime for Australian business.

Class of Business	June 2002 Rate Range %	June 2001 Rate Range %
Traditional – ordinary business (after tax)	6.21 – 6.96	6.38-6.72
Traditional – superannuation business (after tax)	7.58 – 8.52	7.80-8.23
Annuity business (after tax)	6.49 – 7.86	6.51-7.97
Term life insurance – ordinary business (after tax)	3.89 – 4.55	4.20-4.55
Term life insurance – superannuation business (after tax)	3.89 – 4.55	4.20-4.55
Disability business (before tax)	6.50	4.20-4.55
Investment linked – ordinary business (after tax)	5.89 – 6.45	5.86-6.36
Investment linked – superannuation business (after tax)	7.51 – 7.96	7.34-7.92
Investment linked – exempt (after tax)	8.52 – 9.13	8.34-9.12
Investment account – ordinary business (after tax)	4.41	4.51
Investment account – superannuation business (after tax)	5.36	5.49

Bonuses

The valuation assumes that the long-term supportable bonuses will be paid, which is in line with company bonus philosophy. There have been no significant changes to these assumptions.

Maintenance expenses

For the Australian and New Zealand operations of the Colonial Group, maintenance expense assumptions are based on the contractual fees (inclusive of an allowance for inflation) as set out in the service company agreements. These have increased in line with inflation.

For other operations maintenance expense assumptions are based on an analysis of experience over the past year taking into account future business plans. 'One-off' expenses are excluded.

Investment management expenses

Investment management expense assumptions are based on the contractual fees (inclusive of an allowance for inflation) as set out in Fund Manager agreements. There have been no significant changes to these assumptions.

Inflation

The inflation assumption is consistent with the investment earning assumptions. There have been no significant changes to these assumptions.

Benefit indexation

The indexation rates are based on an analysis of past experience and estimated long term inflation and vary by business and product type. There have been no significant changes to these assumptions.

Taxation

The taxation basis and rates assumed vary by territory and product type. For the Australian business it reflects the new regime for life insurance companies effective 1 July 2000.

Voluntary discontinuance

Discontinuance rates are based on recent company and industry experience and vary by territory, product, age and duration in force. There have been no significant changes to these assumptions.

Surrender values

Current surrender value bases are assumed to apply in the future. There have been no significant changes to these assumptions.

Unit price growth

Unit prices are assumed to grow in line with assumed investment earnings assumptions, net of asset charges as per current company practice. There have been no significant changes to these assumptions.

Mortality and Morbidity

Rates vary by sex, age, product type and smoker status. Rates are based on standard mortality tables applicable to each territory e.g. IA90-92 in Australia for risk, IM/IF80 for annuities, adjusted for recent company and industry experience where appropriate. The only significant change has been an increase in the assumption for disability claims in New Zealand.

Solvency

Australian Life Insurers

Australian life insurers are required to hold prudential reserves in excess of the amount of policy liabilities. These reserves are required to support capital adequacy requirements and provide protection against adverse experience. Actuarial Standard AS2.02 'Solvency Standard' ('AS2.02') prescribes a minimum capital requirement and the minimum level of assets required to be held in each life insurance fund. All controlled Australian life insurance entities complied with the solvency requirements of AS2.02. Further information is available from the individual statutory returns of subsidiary life insurers.

Overseas life insurers

Overseas life insurance subsidiaries are required to hold reserves in excess of policy liabilities in accordance with local Acts and prudential rules. Each of the overseas subsidiaries complied with local requirements. Further information is available from the individual statutory returns of subsidiary life insurers.

Managed assets & fiduciary activities

Arrangements are in place to ensure that asset management and other fiduciary activities of controlled entities are independent of the life insurance funds and other activities of the Group.

Disaggregated Information

Life insurance business is conducted through a number of life insurance entities in Australia and overseas. Under the Australian Life Insurance Act 1995, life insurance business is conducted within one or more separate statutory funds that are distinguished from each other and from the shareholders' fund. The financial statements of Australian life insurers prepared in accordance with AASB 1038, (and which are lodged with the relevant Australian regulators) show all major components of the financial statements disaggregated between the various life insurance statutory funds and their shareholder funds.

15. INTANGIBLE ASSETS

	30/06/02 \$M	30/06/01 \$M
Purchased goodwill - Colonial	5,662	5,662
Purchased goodwill - Other	1,125	1,131
Realisation of Life Insurance Synergy benefits ⁽¹⁾	(332)	(332)
Accumulated amortisation	(1,064)	(745)
Total Goodwill	<u>5,391</u>	<u>5,716</u>

⁽¹⁾ Cost and revenue synergies, planned on acquisition of Colonial, are being achieved from the integration of the Commonwealth and Colonial life insurance businesses. Changes in the excess of net market value over net assets of life insurance controlled entities that are directly attributable to these cost and revenue synergies have been recorded as a realisation of goodwill.

16. AMORTISATION SCHEDULE

	30/06/02 \$M	30/06/01 \$M
Goodwill	5,391	5,716
Excess of Net Market value over net assets of life insurance controlled entities	5,656	5,136
	<u>11,047</u>	<u>10,852</u>

Analysis of movement:

Goodwill

Opening balance	5,716	5,905
Purchased goodwill	(6)	243
Amortisation for the year	(323)	(338)
Transfer from excess	-	(332)
Fair value adjustments and increase in integration provisions	-	238
Other adjustments	4	-
Closing Balance	<u>5,391</u>	<u>5,716</u>

Excess of Net Market value over net assets of life insurance controlled entities

Opening balance	5,136	4,322
Synergies	-	332
Other adjustments ⁽²⁾	43	8
Appraisal value uplift	477	474
Closing Balance	<u>5,656</u>	<u>5,136</u>

⁽²⁾ Includes the sale of the Thailand life insurance business during the period and foreign exchange gains and losses.

17. PERFORMANCE SUMMARIES

Group Performance Summary	Full Year	Half Year	Half Year	Full Year	Half Year	Half Year
	30/06/02	30/06/02	31/12/01	30/06/01	30/06/01	31/12/00
	\$M	\$M	\$M	\$M	\$M	\$M
Profit from ordinary activities after tax (statutory)	2,655	1,451	1,204	2,398	1,263	1,135
Profit from ordinary activities after tax ('cash basis' ⁽¹⁾)	2,501	1,309	1,192	2,262	1,153	1,109
Income						
Interest income	10,455	5,086	5,369	11,900	5,876	6,024
Interest expense	5,745	2,725	3,020	7,426	3,623	3,803
Net interest income	4,710	2,361	2,349	4,474	2,253	2,221
Other banking operating income	2,552	1,274	1,278	2,381	1,185	1,196
Total banking income	7,262	3,635	3,627	6,855	3,438	3,417
Life insurance income ⁽²⁾	997	468	529	1,268	624	644
Funds management income	809	419	390	701	381	320
Total Income	9,068	4,522	4,546	8,824	4,443	4,381
Expenses						
Operating expenses	5,201	2,607	2,594	5,170	2,585	2,585
Charge for bad and doubtful debts	449	159	290	385	203	182
Total Expenses	5,650	2,766	2,884	5,555	2,788	2,767
Profit from ordinary activities before goodwill amortisation, appraisal value uplift and income tax	3,418	1,756	1,662	3,269	1,655	1,614
Income tax expense ⁽²⁾	916	447	469	993	499	494
Profit from ordinary activities after income tax	2,502	1,309	1,193	2,276	1,156	1,120
Outside equity interests	(1)	-	(1)	(14)	(3)	(11)
Profit from ordinary activities after income tax and before goodwill amortisation and appraisal value uplift	2,501	1,309	1,192	2,262	1,153	1,109
Appraisal value uplift	477	303	174	474	285	189
Goodwill amortisation	(323)	(161)	(162)	(338)	(175)	(163)
Net profit after income tax attributable to shareholders of the Bank	2,655	1,451	1,204	2,398	1,263	1,135
Contributions to profit (after tax)						
Banking	2,067	1,092	975	1,793	918	875
Life insurance	218	97	121	320	164	156
Funds management	216	120	96	149	71	78
Profit after tax from ordinary activities ('cash basis' ⁽¹⁾)	2,501	1,309	1,192	2,262	1,153	1,109
Goodwill amortisation	(323)	(161)	(162)	(338)	(175)	(163)
Appraisal value uplift	477	303	174	474	285	189
Net profit after income tax attributable to shareholders of the Bank	2,655	1,451	1,204	2,398	1,263	1,135

(1) 'Cash basis' for the purpose of this performance summary is defined as net profit after tax and before goodwill amortisation and life insurance and funds management appraisal value uplift.

(2) Included within life insurance income is a \$36 million tax credit relating to policyholder income tax (30 June 2001: \$94 million tax expense). This item is also included in the income tax line in the above profit and loss. The net impact on the net profit after tax is therefore nil (Refer page 25).

(3) Proforma Group represents the combined results of Commonwealth Bank and Colonial for the half year ended 30 June 2000. The Colonial results have been adjusted for abnormal items and other items not considered part of the ongoing business.

(4) Proforma results have only been prepared on a 'cash basis'.

Banking Performance Summary	Full Year	Half Year	Half Year	Full Year	Half Year	Half Year
Profit from Ordinary Activities Summary	30/06/02	30/06/02	31/12/01	30/06/01	30/06/01	31/12/00
	\$M	\$M	\$M	\$M	\$M	\$M
Interest income	10,455	5,086	5,369	11,900	5,876	6,024
Interest expense	5,745	2,725	3,020	7,426	3,623	3,803
Net interest income	4,710	2,361	2,349	4,474	2,253	2,221
Other operating income	2,552	1,274	1,278	2,381	1,185	1,196
Total operating income	7,262	3,635	3,627	6,855	3,438	3,417
Operating expenses	3,929	1,964	1,965	3,958	1,973	1,985
Underlying profit	3,333	1,671	1,662	2,897	1,465	1,432
Charge for bad and doubtful debts	449	159	290	385	203	182
Profit from ordinary activities before goodwill amortisation and income tax	2,884	1,512	1,372	2,512	1,262	1,250
Income tax expense	816	420	396	705	341	364
Outside equity interests	1	-	1	14	3	11
Profit from ordinary activities after income tax, before goodwill amortisation	2,067	1,092	975	1,793	918	875
Net Interest Income						
Interest Income						
Loans	9,231	4,530	4,701	10,246	5,034	5,212
Other financial institutions	165	96	69	280	138	142
Liquid assets	142	65	77	110	52	58
Trading securities	359	156	203	548	311	237
Investment securities	517	225	292	655	308	347
Dividends on redeemable preference shares	41	17	24	54	28	26
Other	-	(3)	3	7	5	2
Total Interest Income	10,455	5,086	5,369	11,900	5,876	6,024
Interest Expense						
Deposits	4,241	2,035	2,206	5,042	2,435	2,607
Other financial institutions	193	78	115	328	165	163
Debt issues	1,064	511	553	1,661	834	827
Loan capital	232	100	132	374	179	195
Other	15	1	14	21	10	11
Total Interest Expense	5,745	2,725	3,020	7,426	3,623	3,803
Net Interest Income	4,710	2,361	2,349	4,474	2,253	2,221

	Full Year 30/06/02	Half Year 30/06/02	Half Year 31/12/01	Full Year 30/06/01	Half Year 30/06/01	Half Year 31/12/00
	\$M	\$M	\$M	\$M	\$M	\$M
Other Banking Income						
Lending fees	618	325	293	602	284	318
Commission and other fees	1,242	636	606	1,173	594	579
Trading income	489	238	251	426	222	204
Dividends	5	3	2	14	4	10
Net gain on investment securities	78	18	60	56	20	36
Net profit on sale of property, plant and equipment	12	(4)	16	25	24	1
General insurance premium income	119	60	59	107	52	55
Less general insurance claims	(66)	(32)	(34)	(57)	(28)	(29)
Other	55	30	25	35	13	22
Total Other Banking Income	2,552	1,274	1,278	2,381	1,185	1,196

Funds Management Profit after tax

Operating income - external	809	419	390	701	381	320
Operating income – internal	33	19	14	38	18	20
Total income from funds management business	842	438	404	739	399	340
Operating expenses	548	272	276	496	272	224
Profit before tax	294	166	128	243	127	116
Income tax expense	78	46	32	94	56	38
Net profit	216	120	96	149	71	78

	Full Year 30/06/02	Half Year 30/06/02	Half Year 31/12/01	Full Year 30/06/01	Half Year 30/06/01	Half Year 31/12/00
	\$M	\$M	\$M	\$M	\$M	\$M
Life Insurance Profit after tax						
Life Insurance						
Margin on Services operating income - external	997	468	529	1,268	624	644
Operating expenses - external	(724)	(371)	(353)	(716)	(340)	(376)
Operating expenses - internal	(33)	(19)	(14)	(38)	(18)	(20)
Total expenses	(757)	(390)	(367)	(754)	(358)	(396)
Profit from life insurance activities before tax	240	78	162	514	266	248
Income tax expense attributable to:						
Policy holder	(36)	(61)	25	94	56	38
Corporate	58	42	16	100	46	54
Net profit after tax	218	97	121	320	164	156

Sources of profit from life insurance activities

The Margin on Services profit from ordinary activities after income tax is represented by:

Planned profit margins	234	108	126	257	129	128
Experience variation	(37)	(4)	(33)	(63)	(30)	(33)
New business losses / reversal of capitalised losses	(9)	(1)	(8)	(2)	1	(3)
Other	(3)	(3)	-	2	6	(4)
Operating margins	185	100	85	194	106	88
Investment earnings on assets in excess of policyholder liabilities	33	(3)	36	126	58	68
Net profit after tax	218	97	121	320	164	156